P38

THE INVESTMENT OF PENSION FUNDS IN FARMLAND

NEWARK PUBLIC LIBRARY

DEC 25 1980

U. S. GOVT. PUBS.
DEPOSITORY 376

HEARING

BEFORE THE

SELECT COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

THE INVESTMENT OF PENSION FUNDS IN FARMLAND

OCTOBER 8, 1980

Printed for the use of the Select Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
68-911 O WASHINGTON : 1980

Y4.Sm1/2:

SELECT COMMITTEE ON SMALL BUSINESS

GAYLORD NELSON, Wisconsin, *Chairman*

SAM NUNN, Georgia
JOHN C. CULVER, Iowa
WALTER D. HUDDLESTON, Kentucky
DALE BUMPERS, Arkansas
ROBERT MORGAN, North Carolina
JAMES R. SASSER, Tennessee
DONALD W. STEWART, Alabama
MAX BAUCUS, Montana
CARL LEVIN, Michigan

LOWELL P. WEICKER, Jr., Connecticut
BOB PACKWOOD, Oregon
ORRIN G. HATCH, Utah
S. I. HAYAKAWA, California
HARRISON H. SCHMITT, New Mexico
RUDY BOSCHWITZ, Minnesota
LARRY PRESSLER, South Dakota

William B. Cherkasky, *Executive Director*
Corey M. Rosen, *Professional Staff Member*
Robert J. Dotchin, *Minority Staff Director*
Robert M. Wilson, *Assistant Minority Counsel*

READEX FICHE best copy available

CONTENTS

Statement of Senators— Page
- Baucus, Hon. Max, a U.S. Senator from the State of Montana ... 1
- Nelson, Hon. Gaylord, a U.S. Senator from the State of Wisconsin, and Chairman, Senate Small Business Committee ... 3

Statement of Representative—
- Kastenmeier, Hon. Robert W., a U.S. Representative from the State of Wisconsin ... 339

Testimony of—
- Krebs, A. V., rural corporate accountability researcher, Rural America, and the Rural Land Alliance Project ... 39
- Lerza, Catherine, information director, National Family Farm Coalition ... 310
- Reeves, Don, chairman, agricultural policy work group, Interreligious Task Force on U.S. Food Policy, accompanied by Ferdinand Hoefner, task force staff member ... 322
- Sechler, Susan, Deputy Director of Economics, Policy Analysis and Budget, U.S. Department of Agriculture, accompanied by David Harrington, Chief, Farm Sector Economics Branch, Economics and Statistics Service ... 5
- Stone, George, president, National Farmers Union ... 294

Statement of—
- American Farm Bureau Federation ... 24
- Cotter, William S. P., president, American Agricultural Investment Management Co., Inc ... 2
- Frazier, Charles L., director, Washington Office, National Farmers Organization ... 21

APPENDIX

Statement of Communicating for Agriculture, Inc., Fergus Falls, Minn ... 342

Statement of Barbara E. Rose, executive director, Rural Coalition, Washington, D.C ... 348

Statement of Harold B. Steele, president, Illinois Farm Bureau, Bloomington, Ill ... 350

HEARING DATE

October 8, 1980:
- Morning session ... 1

THE INVESTMENT OF PENSION FUNDS IN FARMLAND

WEDNESDAY, OCTOBER 8, 1980

U.S. Senate,
Select Committee on Small Business,
Washington, D.C.

The committee met, pursuant to notice, at 10:08 a.m., in room 424, Russell Senate Office Building, Hon. Max Baucus (acting chairman of the committee) presiding.

Present: Senator Baucus.

Also present: Corey M. Rosen, professional staff member; Robert M. Wilson, assistant minority counsel; and Kathleen Morgan, staff assistant.

STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator Baucus. The hearing will come to order.

Our hearing today is an inquiry into pension fund investments in farmland. The committee wants to learn more about pension fund nvestments and their implications for American agriculture.

I, for one, am deeply concerned about the proposal by the American Agricultural Investment Management Co. to use pension funds o buy farmland around the country. Pension funds have massive inancial resources and favorable tax treatment. Competing in the narket for farmland, they are only going to make it tougher for young people to get a foothold in the farming business.

I have always felt that farmers should own the land that they work. There has always been a fundamental element in American ociety that farmers own their own land. That has made us the trongest Nation in the world with the world's strongest agricultur-l system.

Therefore, I am anxious to learn from the farm organizations nd the USDA what the possible impacts of this proposal are. Remedial legislation may be necessary to insure that control of merican agriculture stays in the hands of farmers. If that is the ase, I intend to draft and introduce such legislation.

The committee has asked a representative of American Agriculural Investment Management Co. to testify. That company, howver, has declined our invitation but has submitted a written stateent for the record. If the committee feels that additional informaon from the American Agricultural Investment Management Co. necessary for our inquiry, we will ask for further written responses or schedule an additional hearing.

[The information referred to follows:]

AMERICAN AGRICULTURAL INVESTMENT
MANAGEMENT CO., INC.,
Bannockburn, Ill., August 1, 1980.

Hon. BIRCH BAYH,
Subcommittee on Anti-Trust and Monopoly,
Senate Judiciary Committee, Washington, D.C.

DEAR SENATOR BAYH: American Agricultural Investment Management Company, Inc. ("American Ag") wishes to respond to the invitation communicated to us by Mr. Joseph Allen to testify at hearings being held by your subcommittee on August 5th and 6th.

Because of the short notice given to us regarding these hearings, we are unable to adequately prepare to testify on the important issue of the family farm. We also question whether this subcommittee is the appropriate forum for us to present the details of our operation. We, therefore, respectfully decline to testify at these hearings, but would like to submit the following statement to be read into the record.

STATEMENT OF AMERICAN AGRICULTURAL INVESTMENT MANAGEMENT CO., INC.

American Ag is a professional consulting firm whose main function is to assist employee benefit funds in the acquisition and management of agricultural properties in the United States. We have three professional staff members: William S. P. Cotter, President; H. Joseph Bourn, Executive Vice President; and Frank B. Chauner, Vice President and Secretary-Treasurer, and operate out of one location in Bannockburn, Illinois.

INTRODUCTION

Employee benefit funds represent the accumulated savings of American workers which are invested to provide funds for their retirement. Investment objectives of employee benefit funds stress current income and long-term capital appreciation. While most funds are primarily invested in corporate securities such as stocks and bonds, there has been a trend in recent years to diversify into various forms of real estate. Employee benefit funds that invest in real estate should not overlook agricultural properties. Farmland used for agricultural production has been, and will continue to be, a good long-term investment.

Employee benefit funds that invest in farmland will be providing a service to the American farm economy. It is well known that there is a great need for long-term capital in the agricultural economy. In our free enterprise system, the retirement savings of American workers is one of the best sources of this capital. The expansion farmer and the beginning farmer need the kind of long-term equity capital that employee benefit funds can provide. We believe that our efforts to raise this capital will be beneficial to the family farm and American agriculture in general.

METHOD OF OPERATION

American Ag is a professional adviser on the acquisition and management of farm properties. Properties under out management are owned by the beneficiaries of employee benefit trusts which may be sponsored by corporations, municipalities or union-management groups.

American Ag assists its clients in acquiring and managing agricultural properties in the prime agricultural regions of the country. Our clients are not farm operators but desire only to invest in productive land and to share in the results. The properties under our management are family manageable units operated by an individual farmer or farm family under a tenant-farmer relationship. A corporate form of organization with supervisors and employees is not used.

In the typical arrangement, our client supplies the land and a portion of the cultural costs. The tenant farmer supplies his labor, machinery and the other portion of the cultural costs. Crop proceeds are split in accordance with local custom. The tenant farmer is not an employee. He is a partner and has equity interest in the product of the land.

The landowner, an employee benefit trust, is not interested only in current income but also in long term appreciation in the farm's value as farmland. The landowner is willing and able to make the investments necessary to maintain and improve the farm. Modern fertilizers and herbicides are used along with crop rotation, terracing and other techniques to maintain and improve the productive capacity of the land over the long term.

SUPPORT FOR THE FAMILY FARM

American Ag believes that American workers owning farmland and tenant farmers operating the farms in partnership with them supports the institution of the family farm. For the family farm to survive sufficient acreage over which to spread labor and machinery to support a family is necessary. Prospective new farm families need a way to enter the business. Expanding a farm or buying a new farm requires a very large capital investment in most areas of the country. We believe that encouraging employee benefit funds to share in this investment in partnership with a family farmer is a legitimate and beneficial way to support the American concept of the family farm.

Employee benefit fund investments will improve the availability of capital for prospective farm owners. Since employee benefit funds do not finance farm property purchases, their investments will not diminish the supply of mortgage funds but rather add new long-term capital to agriculture.

EFFECT ON FARM PRICES

Employee benefit fund investments in farms will not have a material impact on farmland prices. Employee benefit funds have many alternative investments including "risk-free" government bonds and notes. For farmland to be attractive to them, its price must be low enough to provide a competitive return.

Employee benefit funds are at a competitive disadvantage to an individual contemplating purchase of a farm. The tax shelter benefits of farm ownership are of no value to the employee benefit fund since the fund is tax exempt and has no taxable income to shelter.

Employee benefit funds will add new buyers in the market for farmland which we see as reducing the number of distress sales of farms in tough economic times. Employee benefit funds will have the capital to invest and will be cognizant of long term values. This factor also strengthens the family farm by giving farm owners who must sell part or all of their property in tough times a more viable market.

CONCLUSION

In summary, we believe that legislation should not be passed that will prevent or discourage employee benefit funds from investing in farmland. In the interest of our free enterprise system and the family farm, employee benefit fund investments should be encouraged.

We appreciate your reading this statement into the record for us.

Very truly yours,

WILLIAM S. P. COTTER, *President.*

Senator BAUCUS. This committee is committed to the future of family farming in America. We are committed to opportunities for young people who want to become farmers and own their own land. We are committed to modifications of the tax laws to allow family farmers to transfer their assets to future generations of family farmers. We are especially committed to protecting family farmers from unfair tax-assisted competition, whether this be from foreign investors or domestic corporate interests.

I would especially like to commend our chairman, Senator Nelson, for calling this hearing. He has a well-deserved reputation for protecting our family farm system. Frankly, I wish he were here to better understand some of the adverse implications of this proposal, so that it will be even more certain that we are in a good position to introduce legislation to better protect family farmers.

However, in his absence his prepared opening statement will be made part of the hearing record.

[The prepared statement of Senator Nelson follows:]

OPENING STATEMENT OF SENATOR GAYLORD NELSON

The committee is hearing today about a proposal that could have a profoundly negative effect on the family farm system. The proposal of the American Agricultural Investment Management Company to channel pension funds investments into the purchase and management of farmland could be the first step in attracting the over

$500 billion in pension fund assets into farmland acquisition. While there appears to be nothing in the AAIM plan that would be illegal or in violation of any tax or securities regulations, there is a serious public policy question raised by this proposal, one this committee, and other committees of Congress, should investigate carefully.

Under the law, pension funds are given a very special tax status. Income to pension fund trusts is non-taxable; contributions to establish the trust are tax deductible. Tax is only paid when pension plan benefits are distributed to the plan's beneficiaries when they retire. At this point, of course, the beneficiary has benefitted from the deferral of taxes for all the years his or her money was in the plan, plus being able to pay taxes at the lower rate people over 65 are provided under the law. Congress established these tax benefits in order to encourage a voluntary, private retirement system, but we should not lose sight of the fact that it is the taxpayer who is conferring these special benefits. The taxpayer has a right, therefore, to question whether they are being used to serve purposes consistent with Federal policy on other issues.

Clearly, it is the policy of this country—established beyond doubt in the preamble to the 1977 Food and Agriculture Act—to promote a system of family farming. We must ask, therefore, how AAIM's proposal will affect that basic policy goal.

AAIM, like the AG-Land Trust Proposal before it, would have pension fund managers invest their funds in farmland. AAIM would provide management services. According to the plan's promoter, some of the funds would be used to buy farmland and have it managed directly by one of three management companies. Other land purchased by the fund would be leased to area farmers on a 50-50 sharecropping basis.

In bidding for this land, AAIM would have a distinct advantage. Because of the tax status of pension plans, AAIM could outbid local farmers by a wide margin. Professor Neal Harl of Iowa State calculated that over a 30 year period, pension plans' tax advantages would provide them with over three times the net return a farmer could expect, assuming and 8 percent rate of return on investment, and holding the incomes of the farmer and the pension beneficiaries equal. Professor Harl calculates that this could allow the pension plan to pay approximately 25 percent more for the land. While these figures are estimates based on assumptions about rates of return, land prices, and farm and pension beneficiary incomes, they nonetheless provide an idea of just how much of an advantage AAIM will have on behalf of its clients.

AAIM has contended that this incentive would result in an infusion of badly needed capital into farming. The fact is, however, that there is no shortage of capital in terms of the dollars now chasing farmland. There is a shortage of capital for young farmers who want to enter farming, but AAIM's proposal, by increasing the bidding on farmland, would only exacerbate that problem by making farmland more expensive. Farmland has escalated in price in recent years at an alarming rate. Since 1968, in fact, farmland prices have soared 300 percent. During this time, according to a recent small business committee report, non-farmer ownership has also risen dramatically. In 1977, for instance, it appears that at least 50 percent of all farmland was purchased by non-farmers, and 24 percent by non-local businesses. While these figures are necessarily estimates—good data are still lacking—they are based on a number of solid surveys. In any event, careful studies by the USDA now show that farmers own just over half of all farmland.

Clearly, what is happening is that investors and speculators are moving into this area to take advantage of the proven appreciation record of farmland. As a result, farmland prices are now so high that many farmers, even with good years and reasonable prices, cannot justify their investment in their land. Only the land's appreciation provides them with any economic justification for staying in farming. They can rest assured that if they do not go broke first, they will die wealthy. That is cold comfort when trying to make ends meet, or when forced into a sale because mortgage and tax payments cannot be met.

Even more ominously, the excalated price of farmland makes it almost impossible to get started in farming. Land costs are so high that only established farmers and investors can get the credit to buy in. A young farmer can try leasing land for a while, but sometime he will want to own some of that land himself. If AAIM and other schemes like it become popular, he will find himself outbid more and more often.

We will then replace the system of dispersed ownership of farmland by those who till the soil, and plan to hand it on to their children, with ownership by investors, speculators, and institutions interested in maximizing their economic gain. At some point, almost inevitably, this means selling the land to the highest bidder. No sentimental attachments to the land will keep the land in farming. No love of the soil will assure careful conservation for coming generations. Even the institutions with the longest outlooks are short-termers compared to family farmers, and cannot be expected to demand costly, time-consuming soil conservation measures—especially in areas where sale to a developer is a possibility. In fact, an institution that makes these investments and that allows sentiment to keep land in farming in the face of a good bid from an investor, would be violating its fiduciary responsibilities and would be subject to suit.

In short, AAIM's proposal will create no new jobs, provide no new needed capital, and conserve no farmland. It simply will channel much needed capital away from productive investments into non-productive land speculation. At his point, AAIM is too small to pose a threat on more than a localized basis. If it should succeed, however, it will pose a very serious threat indeed to our system of agriculture, for surely other pension funds will be encouraged to get into the act. If this even begins to happen, I, for one, would urge Congress to pass legislation banning pension fund investments in farmland.

Senator BAUCUS. Our first witness this morning is Susan Sechler, Deputy Administrator, Policy and Planning, U.S. Department of Agriculture.

Ms. Sechler, please introduce yourself and also introduce your associate.

STATEMENT OF SUSAN SECHLER, DEPUTY DIRECTOR OF ECONOMICS, POLICY ANALYSIS AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DAVID HARRINGTON, CHIEF, FARM SECTOR ECONOMICS BRANCH, ECONOMICS AND STATISTICS SERVICE

Ms. SECHLER. Thank you, Mr. Chairman.

I am Susan Sechler. I am Deputy Director of Economics, Policy Analysis and Budget of the Department of Agriculture.

With me is David Harrington, who is Chief, Farm Sector Economics Branch of the Department's Economics and Statistics Service.

You specifically requested comments on five issues. In providing these we would like to highlight various other issues raised by the proposal we are looking at today.

My testimony covers the motivation for investing in farmland, the likely impact of pension fund investment on the land market, the impact on the structure of agriculture and on farm programs, possible effects on stewardship of the soil, and the additional competitive edge provided these kinds of investments by tax savings. I would also like to address the legal question for whatever value our information might have for the committee.

In recent years the ownership of American farmland has again become a matter of some controversy, especially because of the publicized entry into the land market of both domestic and foreign investors who do not depend primarily on farming as a major source of their income. Simply said, as long as we have significant inflation, periods when the dollar is at a competitive disadvantage with other currencies, strong demand for land for both farming and other uses and, therefore, rapidly appreciating land prices, individual and institutional investors probably will look increasingly to farmland as an attractive investment. For them, strictly as investors, it does make good business sense.

I have attached to my testimony today two tables that compare two components of income—annual returns and capital appreciation—for various types of investments over the past two decades. The comparison clearly shows why investments in urban and farm real estate have increased: they are currently the best investments with the highest total returns.

There are several reasons why pension funds may not have been attracted to investments in farmland in the past.

First, farmland was not always such an attractive investment. During the 1960's, common stocks appreciated in value at a faster rate than farm real estate and, consequently, appeared to be a better long-term investment than farmland. The current interest in farmland as a possible investment for pension funds is attributable to the rapid escalation of farm real estate values that began in 1973 with the boom in grain prices and continued through the remainder of the 1970's.

During this period, farm real estate has substantially outperformed common stocks in terms of capital appreciation. In addition, there are growing perceptions today on the part of the public and investors that in the 1980's there will be greater pressure on the food supply, increasing prices of food, increasing scarcity of farmland, and, consequently, further rapid increase in the price of farmland.

However, the Department's primary expertise and the focus of our analysis and testimony are the potential impacts of this kind of investment on the farm sector—both on the system as a whole and on individual farmers. This kind of investment could have significant effects on the ownership, control of, and returns to the resources that produce our food and fiber; the financial structure that supports it; the rationale behind income-stabilization payments and their distribution among the farm population; and the farm real estate market.

In each of these areas, there are also direct implications for the farmers of this generation, and especially for those of the next. And, we should not overlook the indirect implications for other citizens, all of whom have a stake in the well-being of our farm sector.

It is important to keep in mind throughout this discussion one fact: throughout our history about half of the American farmer's lifetime income has come from the increase in the value of his land, and that has never been more true than in the last 20 or 30 years. Increasingly in recent years, American farming has been financed by the land. That is the economic and financial reason why ownership is the crucial aspect of what we call our system of family farming.

It has also, of course, meant the development of strong ties between farmers and the quality of the land for present and future generations. It has shaped the direction and control of farm enterprises. Equity in the land is the farmer's principal tool for acquiring and managing operating capital, to meet production expenses each year, and to fulfill whatever desires the operator may have to expand or change his operation.

The increases in land values have also meant that many farmers can weather a bad season well enough to try again. For those unable to make a go of farming, for whatever reasons, the sale of the appreciated farmland cushions the capital losses on machinery and other investments.

Having said this, there are three characteristics of the farm real estate market which, up until now, has been dominated by family farmers, both as buyers and sellers.

First of all, the market is thin. Only a small number of transactions, compared to the total amount of land, occur in any given year. In the year ending February 1, 1980, for example, only $17 billion worth of farm real estate changed owners. That amounted to 26.5 million acres out of a farmland base of about 1.04 billion acres valued at $668 billion. In the last 6 years, the market has gotten thinner. In 1974, there were about 140,000 transfers compared to only 86,000 last year—a decline of about 40 percent.

Even that does not tell the whole story. Last year about 2.5 percent of the farmland was transferred but much less than that actually made it to the open market. Historically, nearly half—43 percent—of the farm acreage is purchased from a relative, inherited, or received as a gift. The other 57 percent of the land is transferred through nonfamily sales, but a substantial proportion of these sales are to friends and neighbors—prearranged sales of parcels that are not publicly advertised.

It is unknown exactly how much land is available for sale to the outside investor, but it is likely to be less than one-half the total land transfer, or less than $8.5 billion in 1980 values. In 1978 private pension funds had assets worth $564.9 billion, around 10 percent more than the total value of farm real estate in the contiguous States that year. If their assets were the same last year, it would have required only 1.5 percent of them to buy up all the land that was available nationally on the open market.

Second, the farmland market is local. Not only is there no national price for farmland and no national exchange for buying and selling farmland, but forces at the local level, including who has recently bought or who wants to buy, exert a major influence on the actual transaction prices. The entry of even a small fund or other institutional investor can dramatically increase the asking prices in a local area.

Farming differs in at least one way from all other major occupations in the United States. It is the only widespread line of work in which the majority of today's operators are the children of parents who had the same occupation. In addition, the vast majority of the absentee landlords of farmland today are either children of farmers, their widows or widowers, or other local people.

Further, many of our most successful and able farmers rent a portion of the land they farm. These part owners, part renters—27 percent of the total—work 53 percent of the acreage. The level of their rent and whether it is a cash rental, a share rental, or partly each, are determined locally, in large part by tradition and neighborhood competition.

It is critical to our farming system that land prices generally respond to the earning potential of the land on a current basis. The working farmer is dependent on the earning capacity of the farm on a current basis. He is at a disadvantage in bidding on new or additional land in competition with nonfarm investors who are looking at future capital appreciation rather than operating returns. turns.

If pension fund investment demand for farmland became prevalent, the pension funds could overwhelm both the national and the local farmland markets. Later, if farmland investments were to lag in profitability relative to other kinds of investments, and the pension funds decided to dump large quantities of land onto the local market, the downward pressure on land prices in the area would have severe impacts on local farmers' equity—their prime safety net.

The point is that, rather than a stable local market that reponds to events within the farm economy or the local area, such a capital flow into and out of agriculture from a distance, in response to other investment possibilities, could mean a market full of financial and psychological uncertainty.

There is a third point that I would like to talk about, which is that farmland prices have steadily risen. Only in 2 years since World War II have land prices—as a national average—declined, and then only slightly. It has been a stable market.

The more rapid rise in farmland prices in recent years—averaging 13.5 percent nationally in the last 5 years—has been a mixed blessing. Established farmers welcome the capital appreciation. They typically purchased a large portion of their land perhaps 15 years ago at one-fourth the current price. On the other hand, the younger farmer, competing for land that comes on the market at increasingly higher prices, has major problems both in acquiring capital to buy land and in providing the cash flow to pay for it.

If pension funds were to buy farmland, the market price of land probably would be driven even higher, further reducing the chances for potential farmers to enter the industry.

As pension funds seek operators for their new land, rental opportunities would increase, but inexperienced farmers would not likely benefit. Farm management firms and experienced farmers with enough equipment and time to take over the operation of additional parcels would probably be sought out by the pension funds—after they were outbid for ownership of the tracts.

Separation of ownership and control is the next subject. It brings us to our deepest concern in the Department as we view this investment proposal. In and of itself, the impact of one particular proposal for pension fund investment may be of little consequence. But what we are considering today is a test case of an investment system that has the potential for radically, irrevocably transforming American agriculture's structure and performance by changing the recipients of the largest single component of income in the farm sector and changing the ownership of its major asset—the land.

This is not an esoteric concern. We are dealing with part of the basic weave of American life. Not all of the colonists, by any means, wanted to continue to farm once they had assured their survival. But a common desire of most colonists was to break with the European class system that divided the rural population by functions: landowners had the leisure and the wealth; farmers, their tenants, did the work and were allowed to keep enough for basic needs. For centuries, a number of economic and technological developments—some resisted, some welcomed—have led to some separation of these functions.

But ownership is always the ultimate control, the basic factor determining the nature of the system. What has shaped farming in the United States from the beginning is the combination of the functions of land ownership, management, and labor in the same unit—the family.

While it is true that 30 percent of our farmland today is held by only 1 percent of the farmland owners and that is a matter of no small concern, it is also true that 62 percent of the farms—35 percent of the acreage—are worked by owners who rent no additional land. The 27 percent who own part and rent part of the land they work—the fastest growing category—do own 28 percent of the acreage, while leasing 25 percent. The remaining 11 percent, who only lease, work 12 percent of the acreage.

Ownership is a deep and abiding goal for all those groups—for the control it gives them over operations, for the pride and status involved.

Our analysis suggests that pension fund investment in farmland would progressively alter the ownership patterns, increasing the number of full tenants and part owners and decreasing the number and proportion of full owners, culminating in a totally transformed agricultural system.

Large-scale investments in farmland by pension funds could affect both the distribution of Government program benefits and the amount of total benefit payments. Government programs are designed to support and stabilize the incomes of farm operators. However, the benefits may effectively be transferred to nonfarmers through leasing arrangements, either as the landlord's share of crop proceeds or through increased rental value of the land.

Furthermore, our research has shown that a significant proportion of the benefits of these programs are capitalized into the market value of farmland, so they ultimately accrue to landowners, whether owner-operators or landlords.

Because most farm landlords are individuals, primarily retired farmers, their widows or widowers, or others with historical ties to the land, this transfer of payments has not been a major concern in the past. However, were pension funds or other large institutional investors to become major farmland owners, substantial sums of Government farm program payments would accrue to the nonfarm sector. This would raise questions as to whether the intent of the programs had become income support for farm operators or for landowners.

Institutional investment in farmland also could affect the level of support and stabilization payments, reducing their effectiveness and/or increasing the Government's budgetary exposure. In calculating costs of production, which are the basis for target prices, part of the land's value is included as a cost component.

Using corn as an example, this attributed land cost has increased from $76 per planted acre in 1974 to $123 in 1980, an increase of 62 percent. As a proportion of the total cost of producing corn, it has remained rather constant, representing slightly over one-third of the cost of production.

If, as appears likely, large-scale investments in farmland by pension funds cause greater increases in farmland values, those increases and any instability would be reflected in cost of production estimates, and ultimately in commodity prices, Government costs, and food prices to the consumers.

The potential impact of absentee ownership, especially by institutional investors, on conservation of our land resource is a legitimate concern. Although soil erosion has been a recognized national problem in the United States since the turn of the century, recent soil losses have generated additional concern.

The Department of Agriculture is supporting a major research initiative to investigate, on a regional and national basis, the effects of land ownership factors on soil erosion. Although these studies are not yet complete, tentative, partial findings indicate that there is no strong relationship between broad classes of tenure and soil erosion losses.

Whether or not these findings can be extrapolated to nonfarm ownership of the type proposed by the American Agricultural Investment Management Co., however, is unknown. As I mentioned earlier, a large proportion of the farmland now owned by nonfarmers is owned by retired farmers and other individuals closely associated with the land and the community. Very little is owned by large, nonfarm investor groups such as pension funds. Consequently, it would be inappropriate to speculate how land owned by such organizations would be managed with respect to conservation practices.

To our knowledge, there are presently no Federal legal restrictions that would prevent pension funds from purchasing farmland as an investment. The major legal restraints on pension fund investments are byproducts of the tax-exempt status of the income from them. Although I am not myself an attorney, it is my understanding from Department counsel that in order to qualify for tax-exempt status, any income received by a pension fund must be passive. That is, it must derive from dividends, interests, royalties, or rents, and not from active participation in the management or operation of the business or the income-producing investment. If the pension fund were actively involved in the management or operation of a business—in this case a farm—any income derived from that investment would be considered taxable income.

Under the American Agricultural Investment Management Co. proposal, individual pension funds will be legal owners of specific farms or tracts of agricultural land. Farm management companies will be hired to provide the actual supervision and management of the land, usually by share leasing it to a local farmer and then insuring that the terms of the leases are followed.

According to a statement submitted by William S. P. Cotter, the president of the American Agricultural Investment Management Co., to Senator Bayh:

> In the typical arrangement, our client (pension fund) supplies the land and a portion of the cultural costs. The tenant farmer supplies his labor, machinery and the other portion of the cultural costs. Crop proceeds are split in accordance with local custom. The tenant farmer is not an employee. He is a partner and has equal interest in the product of the land.

Whether or not this arrangement would involve the pension fund in the management or operation of the farm business, with the loss of tax-exempt status, would depend on the terms of both the contract with the farm management firm and the lease with the tenant farmer.

In some ways I think this is one of the most critical parts of my testimony. The potential entry of pension funds into the agricultural land market raises the issue of equity of competition between tax-exempt funds and traditional owner-operator farmers in attempting to purchase a parcel of land.

There are three interlocking factors here that determine the fairness of the bidding. The first is the tax-exempt nature of the pension fund. The second is the leverage that is available to an owner-operator who acquires additional land using debt financing. The third is the effective tax rate for the owner-operator on both current income and capital gains.

We have compared the after-tax rates of return for owner-operators, institutional investors subject to tax, and pension funds in table 3. The results show that tax-exempt pension funds can clearly derive higher rates of return to equity than institutional investors, and can derive higher rates of return to equity than owner-operators who do not use a high level of debt financing.

However, owner-operators who use 80 percent debt financing to purchase additional land receive higher rates of return on the additional investment than either institutional investors or tax-exempt pension funds. Pension funds, therefore, because of their tax-exempt nature, could out bid, or derive greater rates of return than could all other investors except the well-established owner-operators who are aggressively expanding their farms with debt financing and intend to pass their estate intact to an heir. The smaller or beginning farmers are at a clear disadvantage against both the pension funds and their larger neighbors.

Ambitious farmers must have credit to produce most effectively and efficiently, but aggressive expansion with debt financing is not without its problems—for the individuals and, at times, the public as a whole, when emergency relief measures become necessary. The lower equity farmer who must depend on current earnings to meet his financial obligations, including interest and repayment of debt, is at a distinct disadvantage in a rising land market. His cash flow may be insufficient to meet these obligations. The pension funds, on the other hand, have no cash flow problems. With 100 percent equity financing, they face little risk, but they force family farmers into taking a very risky course in order to compete with them.

The Congress might consider placing pension funds on a more equal competitive basis with family farmers and discourage some investments in farmland by pension funds. It could amend section 511, 512, and 513 of the tax code so that farm rental income received by pension funds and capital gains realized by them on farmland would not be exempt from income taxes, thereby equalizing the competition between owner-operators and tax-exempt funds in the local land market.

Furthermore, it is our understanding that the Internal Revenue Service is currently considering revisions to regulations concerning the taxable status of funds that engage in activities through a common trust fund, which activities would be taxable if performed by the tax-exempt fund itself. This regulation change could significantly alter the competitive position of these funds vis-a-vis owner-operators. We encourage such revisions of IRS regulations.

In our judgment, in summary, the proposal of the American Agricultural Management Co. would not be in the best interests of the farm sector or the general public.

The entry of pension fund investors into the thin local markets for farmland could change the cast of characters in significant economic and social ways. Farmers, whose major tool is equity and whose incentives for buying farmland are connected with long-term, productive activity, would be competing with cash-paying investors whose interests are, understandably, more narrowly concerned with short-term profit.

Finally, we are concerned about the possible effects on local communities of substantial ownership of farmland by investors so far removed in every other way from those communities.

The capital needs of agriculture are enormous and increasing. However, we do not support this kind of investment scheme as a way to increase the capital available to agriculture. In fact, it transfers an asset that both requires and generates capital out of the hands of individual farmers and into the control of portfolio managers who have responsibilities that do not necessarily include fostering a diverse, stable agriculture.

The United States is now in a situation in which parts of its industrial plant need a virtually complete overhaul to regain their competitiveness in world markets. Current events in the Middle East point up the urgency of developing alternative domestic energy sources. The modernization of our industrial plant and the development of those sources will require massive amounts of capital investment, at least part of which could come from pension fund.

Investment in such high-priority areas would benefit all segments of our society by increasing productivity, creating new jobs, reducing our reliance on imported energy, and improving our balance of payments. Pension fund speculation in farm real estate would benefit no one other than the promoters of such investment schemes.

The time to take such actions is now, before the structure of American agriculture is irreversibly changed into a less productive and less responsive pattern of land ownership and production.

Mr. Chairman, that concludes my prepared statement. I shall be happy to answer any questions you may have.

Senator BAUCUS. Thank you very much, Ms. Sechler. That was a very comprehensive and complete statement. You have raised a lot of points which I think are very good.

The tables attached to your prepared statement will be made part of the hearing record.

[The information referred to follows:]

Table 1--Current income yield of various investments

Year	Yield						
	Long-term Treasury bonds	High-grade corporate bonds	Municipal bonds, 20 bond average	Secondary market yields on FHA mortages (residential)	REIT's 1/	Common stock	Ratio of net rent to value 2/
	Percent						
1960	4.02	4.92	3.52	6.16			5.45
1961	3.90	4.63	3.46	5.76			5.57
1962	3.95	4.36	3.16	5.60			5.42
1963	4.00	4.34	3.17	5.46			5.55
1964	4.15	4.47	3.21	5.45			5.41
1965	4.21	4.61	3.26	5.47			5.41
1966	4.65	5.67	3.81	6.57			5.44
1967	4.85	6.08	3.94	6.56			5.40
1968	5.26	6.84	4.45	7.18			5.37
1969	6.12	8.06	5.72	8.35			5.35
1970	6.58	9.05	6.35	8.98	4.12	3.83	5.33
1971	5.74	7.85	5.48	7.74	5.29	3.14	5.45
1972	5.64	7.59	5.26	7.53	5.82	2.84	5.61
1973	6.31	7.89	5.19	8.08	8.53	3.06	5.54
1974	6.98	9.42	6.17	9.77	10.45	4.47	5.67
1975	7.00	9.51	7.05	9.22	9.56	4.31	5.91
1976	6.78	8.59	6.64	8.77	8.44	3.77	5.45
1977	7.06	8.20	5.68	8.72	7.71	4.56	5.10
1978	7.89	8.98	6.02	9.75	7.93	5.28	4.85
1979	8.74	10.05	6.52	10.89	6.88	5.46 3/	4.61
1980	10.59 4/	12.51 4/	8.09 4/	12.43 4/			
Averages:							
1960-64	4.00	4.54	3.30	5.69		3.20	5.48
1965-69	5.02	6.25	4.24	6.83		3.18	5.39
1970-74	6.25	8.36	5.69	8.42	6.84	3.47	5.52
1975-79	7.49	9.07	6.38	9.47	8.10	4.68	5.18

1/ Real estate investment trusts. An equally weighted average of the current income yields of ten selected REIT's.

2/ Unweighted average of Indiana, Illinois, Iowa, and Missouri. No deductions were made for building expenses.

3/ Preliminary.

4/ Average of first two quarters of 1980.

Table 2--Capital gains of various investments

Year	Yield						
	Long-term Treasury bonds	High-grade corporate bonds	Municipal bonds, 20 bond average	FHA mortages (residential)	REIT's 1/	Common stock	Farm real estate (48 States)
	Percent						
1960	1.49	0.20	1.14	-8.93			3.03
1961	3.08	6.26	1.73	6.94			1.47
1962	-1.27	6.19	9.49	2.86			5.80
1963	-1.25	0.46	-0.32	2.56			5.48
1964	-3.61	-2.91	-1.25	0.18			6.49
1965	-1.43	-3.04	-1.53	-0.37			4.88
1966	-9.46	-18.69	-14.44	-16.74			8.14
1967	-4.12	-6.74	-3.30	0.15			7.53
1968	-7.79	-11.11	-11.46	-8.64			7.00
1969	-14.05	-15.14	-22.20	-14.01			5.61
1970	-6.99	-10.94	-9.92	-7.02		-14.94	3.54
1971	14.63	15.29	15.88	16.02	30.22	18.11	4.27
1972	1.77	-3.43	4.18	2.79	-7.32	11.10	8.20
1973	-10.62	-3.80	1.35	-6.81	-21.09	-1.62	13.64
1974	-9.60	-16.24	-15.88	-17.30	-35.93	-22.88	24.67
1975	-0.29	-0.95	-12.48	5.97	-6.12	2.80	13.90
1976	3.24	10.71	6.17	5.13	6.64	19.77	13.62
1977	-3.97	4.76	+16.90	0.57	20.36	-3.75	16.94
1978	-10.52	-8.69	-5.65	-10.56	13.85	-2.11	8.83
1979	-9.73	-10.65	-7.67	-10.47	32.10	2.32 2/	13.96
1980	-17.47 4/	-19.66 4/	-19.41 4/	-12.39 4/			15.10 5/
Averages:							
1960-64	-0.31	2.04	2.16	0.72		8.79	4.45
1965-69	-7.37	-10.94	-10.59	-7.92		5.54	6.63
1970-74	-2.16	-3.82	-0.88	-2.46	-8.53 3/	-2.05	10.86
1975-79	-4.25	-0.96	-0.55	-1.87	13.37	3.81	13.45

1/ Real estate investment trusts. An equally weighted average of the annual capital gains of ten selected REIT's.

2/ Preliminary.

3/ Average of 1971-1974.

4/ Average of first two quarters of 1980.

5/ Year ending Feb. 1. 1980

Table 3—Rates of Return to Various Investors in Farmland

Item	Owner-operator				Other investors		
	Debt financed		Not debt financed				
	High tax rate	Low tax rate	High tax rate	Low tax rate	Institutional investor	Pension fund	Ag Land Trust I
	A_1	A_2	B_1	B_2	C	D	E
1. Purchase price	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
2. Equity percentage	20%	20%	100%	100%	20%	100%	20%
3. Annual return	$100	$100	$100	$100	$100	$100	$100
4. Rate of land appreciation	5%	5%	5%	5%	5%	5%	5%
5. Interest deduction	$160	$160	0	0	$160	0	$160
6. Taxes saved	$68.80	$25.60	0	0	$48	0	0
7. Net taxes paid on this investment	-$28.80	-$9.60	$43	$16	-$18	0	0
8. Current rate of return to assets after taxes and interest payments	-1.56%	-2.52%	2.85%	4.2%	-2.1%	5%	-3%
9. After tax rate of capital gains	5% 1/ 4.14% 2/	5% 1/ 4.14% 2/	5% 1/ 4.14% 2/	5% 1/ 4.14% 2/	3.6%	5%	5%
10. Combined rates of return to equity	17.2% 1/ 12.9% 2/	12.4% 1/ 8.1% 2/	7.85% 1/ 6.99% 2/	9.2% 1/ 8.34% 2/	7.5%	10%	10%

1/ Assuming the owner-operator does not intend to sell the land, but to pass it intact to an heir, thereby avoiding the capital gains tax.

2/ Assuming the owner-operator intends to sell the land at some future date, thus paying capital gains taxes at 40% of the gain, in a 43% marginal tax bracket.

Assumptions of the Situations

1. Owner-operators are assumed to be sole proprietorships with 43% and 16% marginal tax brackets, respectively.
2. Institutional investor is assumed to be a corporation with a 30 percent marginal tax rate.
3. Pension Fund is assumed to use 100% equity financing to avoid loss of tax exempt status on its investments.
4. Ag Land Trust fund is assumed to be able to use debt financing without loss of tax exempt status, through the use of a common trust fund intermediary.
5. The land is assumed to be priced at $2,000 per acre, and to return $100 in net return to land annually.
6. The net return to land and the market value of land are both expected to grow at the rate of 5 percent per year.
7. All investors can borrow money at 10% interest.

Senator **Baucus**. I have one question. In addition to pension funds, are you aware of any interest on the part of other institutional investors to embark upon these same kinds of arrangements?

Ms. **Sechler**. We hear word of other kinds of institutional investors. I checked the rate of change in absentee purchases over the past year. It has only gone up as a small percent of the transfers. Therefore, it does not look as if, at this point at least, that rate is increasing very rapidly.

Senator **Baucus**. Have you discussed your recommendations for changing the tax code with IRS? Do you know how far along they are in either agreeing with the legislative changes or changes in IRS regulations that would make the income from farmland that an institutional investor owns in pension funds taxable instead of tax exempt?

Ms. **Sechler**. No; we have not discussed that with IRS.

Senator **Baucus**. Have you sent proposals over to IRS?

Ms. **Sechler**. Not at this time; we have not, sir.

Senator **Baucus**. Do you plan to send recommendations to the IRS with respect to changes in the tax code?

Ms. **Sechler**. Yes, sir. As part of the structure of agriculture project that the Secretary initiated last year, we have a broader tax project that is looking into various competitive advantages and also the impact of tax regulations on farming.

Our thought, at that time and before this hearing, was to have the initial work on that completed in November and then begin talking to the Treasury Department after that. If you feel it would be a good idea to go ahead, we can do so.

Senator **Baucus**. I personally think it would. I recommend you do so.

What about the tax exempt status of capital gains? Is it true that under the tax code today capital gains that would accrue to a pension fund owner under this kind of arrangement would be tax exempt?

Ms. **Sechler**. Yes.

Senator **Baucus**. Do you also recommend that not only ordinary income but capital gains income be treated as taxable income?

Ms. **Sechler**. Yes, we do, sir.

Senator **Baucus**. It is my understanding that in Great Britain maybe 20 percent of land is owned by pension funds. Is that correct? Are you familiar with that?

Ms. **Sechler**. I believe it is, sir.

David, do you know?

Mr. **Harrington**. No.

Ms. **Sechler**. I do not know the answer to that.

Senator **Baucus**. Actually, I think it is 20 to 30 percent of pension fund assets are in real estate. I am wondering what effect that has that is significant to our discussion here.

Ms. **Sechler**. At times we have discussed landownership patterns in other countries as a way to gain a perspective on our own situation. Of course, Great Britain's land is much more expensive than ours is and tends not to be transferred with even the frequency ours is. Ownership is much more concentrated, but it could not be attributed to pension funds.

Senator Baucus. Let me ask another question. You are very concerned about this movement, and I am, too. Frankly, I am hard pressed to see why we should even allow it to occur at all. My question really goes to this: Do you see any benefits in the arrangement proposed by the American Agricultural Investment Management Co., that is, where a pension fund buys land and the land is managed for the fund by someone else under a tenant arrangement with the person who operates the land?

Frankly, I am hard pressed to find any benefits in this kind of arrangement to American society as a whole. It is certainly very detrimental to family farmers. It is detrimental to the stewardship of the land. It is detrimental for all the other reasons that you have indicated in your statement.

In your view should Congress prohibit pension funds from owning farmland or should Congress, on the other hand, not pass legislation prohibiting the ownership of farmland by pension funds but change the tax status so that individual farm operators are competing more fairly and equitably with pension funds?

Ms. Sechler. It is our view that at this time you should proceed with the tax aspect—the competitive advantage aspect. We discussed the idea of a total prohibition. From time to time, as you know, that comes up relative to other kinds of investment in farmland. However, we think that would not be a good idea at this time. It is not in keeping with our cultural tradition. It could lead to other kinds of distortions in the market. We do not believe that the conditions at this time are so severe as to warrant that. However, I think we should monitor the situation very closely.

Senator Baucus. Do you see any benefits?

Ms. Sechler. I should also turn to my colleague here, Mr. Harrington.

I do not see any benefits for this kind of investment——

Senator Baucus. For anybody but the pension fund beneficiaries.

Ms. Sechler. Yes. In terms of that, I think there are other investments that are probably equally beneficial over the long run.

Senator Baucus. Mr. Harrington, do you have an idea about that?

Mr. Harrington. There are perhaps some negative consequences that would accrue from prohibiting pension funds from investing in farmland. Pension funds, in order to properly adjust to the inflation rate that we have, must have the ability to enter into certain types of equity investments. Otherwise, they are at an extreme disadvantage in an inflationary economy.

To progressively prohibit equity investment by pension funds could work very definitely to the detriment of pension fund beneficiaries in the future.

Senator Baucus. Aren't there other forms of equity ownership perhaps that pension funds could enter into that would not be, strictly speaking, equity ownership? Can't pension funds invest in some kinds of debentures of some financial instruments that back or guarantee loans that farmers might try to secure to buy farmland or to buy capital equipment for their farmland?

It seems to me that perhaps there are other kinds of financial instruments or some kinds of financial arrangements that pension funds could enter into that would give them some kind of an equity interest and would stimulate farmland and also provide the capital that is needed in farming.

Ms. SECHLER. I think the issue is one that is going to come up time and time again in the future. That was one of my original thoughts, too—why couldn't they buy FCA financial instruments or whatever? However, that does not protect them against inflation. This drives home the fact that inflation really is a priority problem. The distortion it puts on all of our financial institutions is severe.

However, I do think that as a government our thinking is going to have to start considering, on a sector-by-sector basis, which kinds of investments are worth stimulating and which are not.

We have always done a sort of across-the-board stimulation. There are some sectors that need more capital and need more investment and need greater productivity; there are some that do not.

The essential problem here is that I do not think one can make a case that investment in farmland will increase productivity. There might be some instances in which land would be cleared and brought into production, but by and large there would be no increase in productivity. Therefore, the general public would not necessarily share in any benefit from it. Investments that do increase productivity are better for the general public, in terms of inflation.

Senator BAUCUS. Let me play a devil's advocate here. One could argue that a better way to solve the problem—that is, to prevent institutional ownership of agricultural land—is not to prohibit pension funds from owning farmland but, rather, for the Congress and the administration to take measures to make it much more profitable for individuals to stay in farming. Perhaps the tax code could be changed so that family farmers have greater tax incentives and tax breaks than they have today. Perhaps some changes could be made in price support programs that enable farmers to stay in business.

My assumption is that most farmers want to stay in farming. Most farmers want to pass on their farms to their children and their grandchildren. Most farmers do not want to sell unless they have to sell, whether to a developer for a shopping center or to a proposed pension fund. However, I imagine some farmers do want to sell regardless of the profit margin that they may make farming, but most farmers do not want to sell unless they have to do so.

Does it make sense for the administration and Congress to take more aggressive action to try to help family farmers stay in business through tax changes or other price guarantees or financial incentives of some kind, combined with some changes in IRS regulations that make it more difficult for pension funds to keep their tax advantage?

Ms. SECHLER. At this time I am only prepared to comment on one or two aspects of your question.

This addresses specifically the point that Mr. Cotter keeps raising about getting capital into agriculture. We have not seen a problem, in general, with encouraging capital to flow into agriculture. In the past couple of years there have been local credit problems where there is a bottleneck and there have been problems with certain kinds of owners, limited resource farmers and young farmers. But on the whole, the evidence is that agriculture has attracted the capital it needs, in fact, may be overcapitalized.

I would think a much more direct approach, if the Congress wanted to consider it, would be a special program. I am not proposing this, and I have no clearance to do so. However, if you wanted to address that issue specifically, you might want to do it by targeting toward the group of people you want to benefit.

If you turn to table 3 you can see that the large, well-established farmers, who are the primary beneficiaries of both the tax provisions and the stabilization payments, are reasonably competitive with these investment funds. It is the smaller and medium-sized family farmers that are at a competitive disadvantage.

Again, across-the-board measures would not be appropriate.

Senator BAUCUS. I would not recommend across-the-board measures. My thought would be that it would be tailored and refined to help younger people trying to get into farming and the smaller farmers. The big guys can take care of themselves, frankly. The smaller farmers and the younger ones have a harder time.

My suggestion would be to tailor it more to the smaller family farmer.

Mr. HARRINGTON. Mr. Chairman, I believe you are on the right track in playing the devil's advocate and asking if there is some place else we can exert some influence on the economy to alter competitive positions.

One such measure that occurred to us in our analysis is that if pension funds could be attracted into equity investment in industry through the stock market, the standard mechanism for getting equity investment into American industry, then this would work to the benefit of all Americans.

One of the potential reasons for the poor performance of the stock market has been that depreciation of capital equipment is not indexed for the ravages of inflation. Therefore, investors in the stock market implicitly know that they are buying capital equipment which must be replaced at inflated prices. If there were some action taken there, it might attract funds back into traditional markets and methods of equity investment.

Senator BAUCUS. In summary, you are both saying that in your view the proposal by AAIM will give no benefits to agriculture. In fact, it will be harmful to agriculture, period. Is that right?

Mr. HARRINGTON. Yes, sir.

Senator BAUCUS. Pure and simple. That is the position of the Carter administration.

Ms. SECHLER. Yes.

Senator BAUCUS. I agree with it.

Thank you very much, both of you. We appreciate your testimony.

I would like to call next as a panel the following persons: Al Krebs of Rural America, Cathy Lerza of National Family Farm Coalition, Don Reeves of the Interreligious Task Force on Food

Policy, and George Stone, president of the National Farmers Union.

I would state at this point that the National Farmers Organization is not represented here today due to a conflict. However, the NFO does have a statement it would like to have included in the record.

The American Farm Bureau also has a statement that it wishes to have included in the record.

[The prepared statements of the National Farmers Organization and the American Farm Bureau follow:]

Suite 2200
485 L'Enfant Plaza, SW
WASHINGTON, D.C. 20024

News From National Farmers Organization

Statement of the National Farmers Organization
Submitted for the Record - Wednesday, October 8, 1980
Small Business Committee
United States Senate
Washington, D.C.

RE: Investment of Pension Funds in Agriculture

Dear Mr. Chairman:

We sincerely appreciate your efforts, Senator Nelson, to schedule these hearings on the proposals of a Chicago financier to allow yet another segment of "investors" to take a financial ride on the backs of farm producers.

In July of this year, the editor of our NFO Reporter interviewed Mr. William Cotter, founder and president of American Agriculture Investment Management Company, Inc. His announced intention in forming this firm was to persuade major pension funds to invest some of their $600 billion combined capital in farmland. Mr. Cotter and his two partners, all former executives of Chicago's Northern Trust Company, plan to 'negotiate' purchases of farms and ranches, then control those units using a nationwide 'management' network.

We would like to submit the full interview as printed in the Reporter into the record of these hearings along with these few observations.

This scheme's major difference from an earlier proposal of the Continental Illinois National Bank and Trust Company of Chicago -- Ag Land Trust I -- is that American Agriculture Investment Management Company would not own the land. In either case, today's independent producer would become a 'tenant' or 'farm operator.'

It is impossible for us to agree with Mr. Cotter's statements that such a 'tenant' position is preferable to a 'family farm'-based agriculture. As an organization of farmers and ranchers, the National Farmers Organization believes that our independent owner-operated form of agriculture is uniquely successful in supplying much of the world with food and fiber -- and that the structure of that system is the key to its success.

There are no over-all advantages for the American citizen to be achieved by displacing this agricultural system with one based on absentee land ownership and control by large corporate entities, or the boards of directors of banks, insurance companies and investment firms handling vast amounts in pension funds. The fact that actual control over production decisions would be filtered through an expanding number of levels of ownership and management makes the proposal even more undesirable. It would become increasingly difficult to tell who was making major production decisions, and increasingly clear that it was not the farm operator. Incidentally, it would be more expensive. Eventually all the consuming public, including farmers, would have to pay for this management overhead burden.

Mr. Cotter's future scenario would have numerous farm units worked by tenant employees, managed by his investment firm, and owned by pension funds from any number and type of organization. Most of the real production control would probably rest with the middle-man, or investment manager - the one link in the chain with no money of its own invested in the farm operation. Such a system would undoubtedly bring about planting and breeding decisions based solely on promised return to investors. When practiced, in a central point of control, this could threaten such continuity of food production, as we now enjoy in this country.

The fundamental reason, however, that we oppose this type of capital intrusion into agriculture is that all arguments in its favor are based primarily upon the assumption that our current form of agriculture cannot be profitable enough in its own right to attract necessary investment money. The fact that many so-called experts would subscribe to this theory, is an indictment of our current economic marketplace. Furthermore, it is a presumption that National Farmers Organization members simply refuse to accept.

Over the last 25 years, NFO farmers have built a nationwide network of farm commodity handling and distribution facilities to enable producers to bargain collectively from a position of market strength. We are committed to achieve the full potential of that endeavor. At the same time, we have participated with other farm groups to work together in every way possible to attain fair prices for all producers.

It is anticipated that the same kind of united bargaining efforts on the part of farmers that generated some of the funds that Mr. Cotter now intends to funnel into agriculture, will enable farmers and ranchers to become and remain both profitable and independent. The nation will be more secure in its food supply.

Sincerely,

Charles L. Frazier
Director
Washington Office

The NFO REPORTER
VOL. XXV; JULY, 1980, CORNING, IOWA NO. 7

Pension funds to buy farms?

There may be a tenant farm in your future

A Chicago financier who reportedly has said "the family farm is a meaningless phrase" has created an investment company that hopes to persuade the nation's $600 billion rich pension funds to buy prime farmlands.

William Cotter, who until recently was a vice president at Chicago's Northern Trust Co., along with two other former executives of the bank, Frank Chauner and Robert Corman, have formed American Agriculture Investment Management Co., Inc.

Unlike the ill-fated Ag-Land Trust scheme of 1977, Trotter said that his company would not actually buy the land. Instead, he said, it would "negotiate the purchase" of the farms for the pension funds and then "manage" them for the funds with a nationwide management network.

The farms themselves would be manned by tenants, a term Cotter told the *NFO Reporter* in an interview, he dislikes. "Farm operator is a better term than tenant," he said.

Already a small squall of criticism surrounds Cotter's proposition. Cotter himself makes no bones about his point of view: "It is a mistake to assume the owner-operator system of agriculture is beneficial to the nation."

The Chicagoan argues that his plan would free farmers of much of their capital problems since they would no longer need to own their farms. "There is no argument that more credit is needed," he contended.

Although he said they've "yet to buy a single acre," Cotter claims "I would have to say there has been some interest" by the pension groups. Still, he refuses to be pinned down to a specific timetable on when his group will begin to roll. "You have to keep in mind that there's a long lead time in dealing with pension funds," he said. He did say that it will be well into 1981 before the pension funds may act.

And if they don't?

"There is a huge and enormous market in private investment" for farmland, Cotter said. He added his firm will be happy to fill that demand.

The only area of the country Cotter has ruled out is the Northwest. Earlier, a list of their target states had been published...a list Cotter now contends was erroneous. For instance, Cotter once told a reporter from the *Kansas City Times* that he already had an agent in Des Moines.

The Iowa attorney general's office advised him that state law prohibited trust ownership of farmland. Cotter later told the *NFO Reporter* he never had any intention of operating in Iowa.

The difference between Cotter's proposal and the Ag-Land Trust plan is that Cotter's company wouldn't own the land. In 1977, the Continental Illinois National Bank and Merrill Lynch, Pierce, Fenner and Smith proposed actual purchases of farmland for investors in $50 million parcels.

That proposal was defeated because it sought non-profit status from the Internal Revenue Service and as a result of Congressional scrutiny prompted by farm and rural ire. Cotter's scheme is expected to undergo similar scrutiny, although well informed observers doubt if his firm has sufficient financial backing.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION BEFORE THE SENATE SMALL BUSINESS COMMITTEE WITH REGARD TO PENSION FUND INVESTMENT IN U.S. FARMLAND

October 8, 1980

The American Farm Bureau Federation is the nation's largest general farm organization representing over three million member families in 49 states and Puerto Rico. Farm Bureau is guided by policy developed through the participation of its members at the county, state, and national levels. The major goal reflected in Farm Bureau policy is the economic, educational, and social enhancement of farm and ranch families.

We are concerned that the use of pension funds to purchase farmland will hamper, if not prevent, the accomplishment of our principal effort--the improvement of net farm income.

Inflation and the outlook for continued inflation is the central economic problem in agriculture and the overall economy. As long as inflation remains out of control, we can expect even more programs such as the pension fund investment program as investors seek longterm protection of their earnings from inflation. Controlling inflation by limiting federal spending and reducing taxes would go a long way toward eliminating the need for investors to look for protection of their wealth and incomes from continued currency debasement.

We believe that inflation, not a shortage of capital, is the chief deterrent to successful farming. Inflation is the cause of the cash flow problems among many farmers. Earlier this year, Mr. Harry Bell, president of the South Carolina Farm Bureau and a Board member of the American Farm Bureau Federation, presented our testimony before the House Agriculture Committee on the financial problems facing American agriculture. He said:

> "Farm Bureau believes inflation is the single most important problem facing the agricultural economy. We believe that the government's expansion of the money supply to finance increasingly larger budget deficits is finally taking its toll on this nation's economy and especially on agriculture. The federal government's misguided fiscal policies, deficit spending and continued expansion of expensive government programs must be brought under control if the farm economy is to regain stability."

It should be noted that the historic rate of return on farmland investment is only 4 to 5 percent. This leads to the conclusion that it is significant appreciation in land values in response to inflation, not the income return from farmland, that is important to pension fund investors. Since it is not the income return from farmland, but the inflation hedge in farmland that interests pension fund and other investors, we believe that the continued use of pension funds to purchase farmland will further distort economic relationships in the agricultural economy by: (1) increasing competition for a scarce and precious natural resource--productive farmland--resulting in higher land values, property taxes, and estate taxes; and (2) producing structural changes that could erode the efficiency and productivity of the most successful enterprise in the world--American agriculture and the family farm.

In 1977, a House Agriculture Subcommittee held hearings on the Ag Land Trust proposal, a pension fund investment plan developed by the Continental Bank of Illinois and Merrill Lynch. Mr. Harold Steele, president of the Illinois Agricultural Association and a Board member of the American Farm Bureau Federation, presented Farm Bureau's testimony opposing the Ag Land Trust. A copy of that statement is attached for the Committee's information.

Our opposition to pension fund investment, investment that receives special tax status by the legal nature of pension funds, was based then, as now, upon policy adopted by the voting delegates of the member State Farm Bureaus. At the 61st annual meeting of the American Farm Bureau Federation in January 1980, the following policy was adopted:

Nonagricultural Firms in Agriculture

> "The entry of huge amounts of outside capital into agriculture, the extensive development of various forms of vertical integration, and the activities of huge business conglomerates in the production and marketing of agricultural commodities are raising serious questions concerning who will control agriculture in the future.
>
> "We will:
> (1) Continue to study the effects of the entry of huge nonagricultural firms into farming and their influence on major farm issues and programs;
> (2) Oppose tax advantages which encourage this entry--without penalizing farm operators who have occasional losses from farm operations;
> (3) Strengthen the ability of farmers to bargain with integrators and other handlers;
> (4) Strengthen the economic position of farmers by encouraging more effective group action in buying and selling; and
> (5) Oppose the use of agricultural land as a long-term tax-sheltered investment by pension and profit-sharing funds."

Farm Bureau is concerned about pension fund investment in agriculture for several reasons. First, it has been suggested that American agriculture is faced with a shortage of capital that can be remedied in part by the infusion of pension funds.

Capital is available to farmers and ranchers although it is costly--due primarily to inflation. Ample credit is found through commercial lending institutions as well as through numerous government programs. Recent amendments to the Farm Credit Act address many of the unique credit needs of farmers. Farm Bureau has supported these changes to make credit more available through Production Credit Associations, the Federal Land Banks, and other branches of the Farm Credit system.

Farm Bureau's second concern is the potential effect of such investment on the structure of agriculture. Last year, the Department of Agriculture sponsored hearings on the structure of agriculture. At that time, Farm Bureau testified that the family farm is continuing to survive despite the obstacles confronting it. We are concerned, however, that if institutional investors and pension funds gain a foothold, the face of American agriculture will indeed change. Both farm size and farmland values have been steadily increasing in recent years with land values increasing an average of fourteen to fifteen percent per year. Increased competition by pension funds for productive farmland will, undoubtedly, further increase land values making it more difficult for young farmers to purchase land. Increased land values also mean higher property and estate taxes despite no real increase in productive value.

Third, pension funds receive tax advantages unavailable to farmers. This constitutes an unfair advantage over farmers in purchasing farmland.

Farm Bureau is skeptical of the merits of pension fund investment in agriculture. We see little, if any, benefit accruing to farmers and ranchers through such activities. Our goal of improving net farm income can be achieved through controlling inflation; the enactment of improved marketing and bargaining legislation to strengthen the ability of farmers to negotiate with processors; the strengthening of farm cooperatives; increasing agricultural exports; and allowing the private enterprise system to function with reduced federal regulations and a reduction in the amount of our gross national product now preempted by the federal government. We believe, however, that funds that receive special tax status should not be allowed to compete with farmers, ranchers or others seeking to purchase farmland without the special advantages granted by tax status.

We appreciate the Committee's consideration of this important issue and ask that our comments be made a part of the hearing record.

Testimony of

Harold B. Steele, President

Illinois Farm Bureau

before the

Subcommittee on Family Farms and Rural Development,

Committee on Agriculture,

United States House of Representatives

February 24, 1977

Statement of Harold B. Steele, President of the Illinois Farm Bureau Before The Subcommittee on Family Farms and Rural Development, Committee on Agriculture, U.S. House of Representatives

My name is Harold B. Steele. I am a farmer from Princeton, Illinois and President of the Illinois Farm Bureau, a voluntary association of approximately 250,000 members in the State of Illinois. I appear here as a member of the board of directors of the American Farm Bureau Federation, which is comprised of state farm bureau associations in forty-nine states and Puerto Rico with membership of over 2.6 million families. I would like to thank the Subcommittee for allowing me to appear here today to speak about the proposed Ag-Land Fund.

My son and I share responsibilities on a farm of 665 acres in Central Illinois where we raise corn and hogs. We operate a family farm which has been in our family for four generations.

The American Farm Bureau Federation and its members are committed to supporting the family farm. Since the organization was founded in 1919, the American Farm Bureau Federation has sought to maintain the rights of farmers to manage their own farms and to represent the economic, social, and educational interests of American farm people. In this manner our goals are similar to those of this Subcommittee which reflect Congressional concern with the decline in the number of family farms, the increasing cost of farmland, and of maintaining the family farm within American agriculture.

Farmers are extremely apprehensive about the proposed Ag-Land Fund. We have reviewed the plan and testimony of representatives of the Continental Illinois National Bank and Trust Company of Chicago (the "Continental Bank") and Merrill Lynch Hubbard, Inc. ("Merrill Lynch"). As a result our apprehension has increased, and we believe that the detrimental effects substantially exceed suggested benefits to agriculture and other public interests.

The Ag-Land Fund poses a major threat to family farmers in this country. This proposed fund could be the first step toward large scale ownership of farm properties by powerful financial interests. This would change the pattern of farmland ownership in this country from local ownership by private individuals or small groups of individuals to absentee ownership by financial institutions or large corporations.

We are opposed to the Ag-Land Fund and urge Congressional efforts to prevent its implementation for the following reasons:

I. Ownership and Control of Farm Units By Financial Institutions.

Most of our agricultural production comes from family farms where the bulk of labor and management is provided by the farmer and his family. The Preliminary Report of the 1974 Census of Agriculture indicates that approximately 90% of the farms in this country with sales of $2,500 or more are operated by individuals or families. Although this same Report indicates that a significant number of farms are held in tenancy, a study of tenancy in agriculture, prepared by

Michigan State University and the Department of Agriculture in 1972, indicates that landlords holding farm property in 1972 were largely retired farmers, widows of farmers or estates, and that a significant portion of the tenancies were interfamily rental arrangements. The proposed land fund will significantly change the existing landlord-tenant relationship. Ownership of the land would be placed in a trustee which would act in behalf of several pension and profit sharing funds and their nonfarm investors. Management and control would be placed in the trustee's agricultural property division under the terms of lease arrangements. Tenants would have operational responsibility for the farming activities but control would remain with the bank.

The Continental Bank representatives seem to believe that land ownership by farmers is outmoded and is to be replaced by the concept of "entrepreneurship." They do not define "entrepreneurship" but their philosophy is evident in their statement that profitability is of paramount concern in farming operations. We support the idea of profitability in farming, but we challenge any attempt to obtain profit through transfer of ownership and control of family farms to financial institutions. Such a concept overlooks a key ingredient in the success story of American agriculture, the pride of ownership. Pride cannot be written into a balance sheet or a profit and loss statement, but pride of ownership is a key element in the basic traditions found in the family farms of this country. This tradition should continue.

We recognize the need for meaningful and innovative approaches to encourage the entry of young people into agriculture. The American Farm Bureau has exerted efforts through its young farmers' programs to assist this important goal. However, it is doubtful whether the proposed fund would provide much assistance to young farmers. We do not believe that the trust department of the bank will entrust farming operations of the magnitude under consideration to relatively inexperienced farmers. We are confident that many opportunities can be provided by the bank through their direct lending operations to help finance worthy young farmers without sacrificing the ownership and control of their farms.

Moreover, the stated intention of the bank to provide the operator/lessee with an opportunity to purchase the land he is farming appears to be equally unrealistic. The size of the leased unit could preclude purchase by individual farmers. It is also highly doubtful that a trustee could provide option rights favorable to an operator which would be consistent with the investment objectives of the trust.

II. The Proposed Ag-Land Fund Would Adversely Increase Land Values.

Land prices have escalated rapidly in recent years as farmers and others have competed for available land. The use of funds from pension and profit sharing plans to compete for available land can only have the effect of increasing the upward pressure on land values. The effect of the Ag-Land Fund itself of $50,000,000 seems insignificant when compared to the $12 billion in value of farm real estate transfers for the year ending March 1, 1976 cited by the U.S. Department of Agriculture. However, the Ag-Land Fund may be the initial effort to tap the investment potential of private and state and local pension and profit sharing funds the book value of whose assets as of December 31, 1975 exceeded $320 billion. Moreover, the impact of the Ag-Land Fund itself should not be underestimated.

The existence of a purchaser such as Ag-Land Fund in any locality can result in higher land prices irrespective of the geographical diversity of the purchases of the Fund.

In addition to adverse effects on the purchase price of farmland the proposal will also have a negative impact on real estate taxes which are taxes calculated on the basis of land values. In Illinois, farmers may be subject to real estate taxes of $50 or more per acre under present conditions. Such taxes are rapidly escalating without the influence of large funds which would apply additional upward pressure on the market.

Land prices are already at levels that make it difficult if not impossible for young farmers to get started in farming on a land ownership basis. Further escalation in land values because of competition from nonfarm investors could make it even more difficult for young farmers to purchase land and pay for it from the earnings generated by their farming operations. Instead of tenancies being a preliminary step toward full ownership, young farmers may be facing a situation where they would become permanent tenants. This prospect may deter large numbers of young people from going into farming and these young people are the hope for the continuation of our present successful farming system.

Public policy evidenced in our tax laws supports the creation of pension funds to help support workers upon retirement. These funds have traditionally been invested in the securities of private corporations and government instruments with the result of increasing available capital to the securities and money markets. Because the United States does not have an unlimited quantity of productive farmland, the use of assets of pension funds to purchase farmland will not increase available capital. It will increase the value of available land and related taxes resulting in the redistribution and control of such land in the hands of fund managers.

One of the stated reasons for the creation of the Ag-Land Fund is the possible shortage of capital in agriculture. It does not appear to us that such shortage exists at present or in the foreseeable future. The Farm Credit system, country and metropolitan banks and other lenders appear to have ample lending power for sound farming operations. If additional capital is needed by agriculture in the future, this can be accomplished without increasing land values and relinquishing control of agricultural land to nonfarm investors.

III. Basic Unfairness of Allowing Tax Exempt Organizations to Compete with Taxpaying Farmers.

There is no reason why the favorable treatment given to pension trusts under the tax laws should extend to trusts which compete with individual farmers in farming operations. The Continental Bank has structured the proposed Ag-Land Fund with the view that it would be a tax exempt organization in which other tax exempt pension funds could invest for the purpose of diversifying their assets. Under the proposed plan, the Ag-Land Fund could receive gains from the purchase and sale of land, rentals, and profits from its hedging operations without having to pay tax on this income. The tax on such income would be deferred until some time in the future when assets were actually distributed as pension benefits to individuals who would then pay a tax upon amounts received.

The exemption from tax on the income of the fund will allow the proposed trust to compete at a substantial advantage in comparison with farmers who must pay taxes on their income from the sale of land, rental income received, and on the profits of hedging transactions. The real advantage of the trust will be that the trust managers can utilize profits received from land sales and farming operations without having to pay a tax. These profits can be employed to generate more profits until the trust managers are called upon at some future point to distribute part of the assets to the participating pension funds for distribution to individuals. The proposed trust will thus have immediate use of the earnings and profits it receives, undiminished by tax payments, which it will be able to use to buy more land or engage in other activities that directly compete with family farms.

Prior to offering interests in the Fund the Continental Bank requested that the Internal Revenue Service issue a ruling to the effect that the amounts the trust receives under its tenancy arrangements and in its hedging transactions would be considered "rents from real property" for purposes of Section 512(b)(3)(A)(i) of the Internal Revenue Code and thus not taxable income to the trust. We do not think that the amounts the trust will receive from the operation of the farms under its lease agreements is the type of passive income that Congress intended to allow tax exempt organizations to receive without the payment of tax. The proposed lease arrangements described by the Continental Bank give the trust managers a large degree of control over the operation of the farm, and such control is inconsistent with the concept of passive investment. Furthermore, the trust's hedging operations present an additional source of income which should not be excluded from tax. In the hedging operation, the trust manager usually arranges to sell the crop for a stated price in advance of the actual harvest as a hedge against a drop in the price at a later date. Representatives of the Continental Bank say that this hedging is merely an incidental activity related to reducing to cash the crops the trust receives as "rents." However, this hedging is a separate activity related to the marketing of the crops which is separate from the trust's status as a landlord and thus any profits derived should not be treated as "rents." The Continental Bank has not provided any prior example of the treatment of hedging transactions as "rents" exempt from taxation.

IV. Contradictions of the Ag-Land Fund.

a. Tax Ruling

Representatives of the Continental Bank and Merrill Lynch have stated that the Declaration of Trust is a general statement of the relationships in the Trust but does not indicate the specific manner in which the trust will be operated. They have further stated that the leases and other documents submitted as Exhibits to their request for ruling to the Commissioner of Internal Revenue on September 9, 1976 are only "pro-forma" documents and "basic guidelines." It is unclear to us how the Internal Revenue Service can consider ruling on a proposed plan which does not describe specifically the material relationships of the parties. If the request for ruling contains Exhibits which are only guidelines, it should be rejected or withdrawn. If on the other hand, the Exhibits contained in the request for ruling do, in fact, contain the specific material terms under which the plan will be operated, the Continental Bank and Merrill Lynch should explain the apparent contradiction between their statements and their request to the Internal Revenue Service.

b. Objectives of Ag-Land Fund.

The objectives of the Ag-Land Fund are to benefit investing pension plans and their participants through profit obtained from appreciation in land values and earnings from leased farm operations. In order to achieve this result and act in a prudent manner the trustee needs to maintain control over the farming activities of the farmland owned by the trust. If the farmer operator were to have such control, pension plans could not be expected to invest in such a financial arrangement. It is the management and control efforts of the trustee which makes this an attractive investment to fiduciaries of pension funds.

To the degree that the Continental Bank relinquishes control to operator lessees and provides favorable options to such operators to purchase the land owned by the Ag-Land Fund it creates an unacceptable investment vehicle which may not satisfy sound investment standards.

In short, the objective of the proposal is to obtain a prudent investment vehicle for those responsible for pension funds. In order to achieve this objective, control of critical decisions with respect to farmlands involved must remain in the Continental Bank.

c. Preservation of the "Family Farm" by the Ag-Land Fund.

The controversy over the proposed land fund has been called an emotional issue, and it does have an emotional element because it strikes at the heart of some fundamental beliefs that have been a part of farm life for many years. In 1955 when this Subcommittee was formed, it prepared a study called The Family Farm in which it noted that the family farm has been defined as one where most of the managerial decisions are made by the farmer and most of the physical work (with the exception of the harvest season) is done by members of the farm family living on the farm.[*] The tenancy arrangements of the Crop-Share Lease proposed by the Ag-Land Fund sets out the number of acres to be used for rotated crops, the acres to remain in permanent pasture, and the acres to be used for other purposes; it specifies the type of crops to be planted, the variety of crop, the number of acres to be planted. The lease also grants the bank control over the use of governmental programs. Farms operated under such a lease arrangement would not be family farms as generally known.

---

[*] Report of the Subcommittee on Family Farms, House Committee on Agriculture, 84th Cong., 2d Sess. 7 (1956).

CONCLUSION

Even though we are opposed to the concept of the land trust, ere may be some benefits to be gained from the proposal. It monstrates very clearly that relatively little is currently own about the owners of agricultural lands. The proposal also oints to the fact that as a nation we need to answer the public olicy question - "who will control American agriculture in the uture?" The "family farm" concept that has prevailed in the nited States has been a highly productive and efficient system f food production. It is no accident that the American farmers re able to provide consumers at home with ample supplies of food t reasonable prices and at the same time produce more than $22 illion worth of products for sale abroad. Such a production ystem should not be abandoned lightly or allowed to be replaced iecemeal because we do not have a national policy on ownership and control of agricultural land.

Farm Bureau respectfully requests this Subcommittee to:

1) cause an in-depth study to be made of the current ownership of agricultural land.
2) take such action as may be necessary to prevent the implementation of the proposed Ag-Land Fund or similar plans.
3) conduct fact-finding studies to develop a national policy on who should control agricultural land and agriculture.
4) in the event the Internal Revenue Service provides a favorable ruling to the request of the Continental Bank, consider

legislation to make the rents received by the Ag-Land Fund and similar trusts, as well as other gains and earnings, taxable to the fund upon receipt. Any such legislative change should become effective retroactively to apply to such land funds or trusts already in existence.

Thank you Mr. Chairman for allowing me to appear here today.

The Congressional commitment to the preservation of the family farm was shown by the creation of this Subcommittee in 1955, and we believe that the objective of this Subcommittee is as important today as it ever has been.

Senator Baucus. It would be helpful if each of you would introduce yourself in any order. If you have prepared statements you want to read, fine; if you want to summarize, fine. Please proceed in any way that you wish.

STATEMENT OF A. V. KREBS, RURAL CORPORATE ACCOUNTABILITY RESEARCHER, RURAL AMERICA, AND THE RURAL LAND ALLIANCE PROJECT

Mr. Krebs. My name is A. V. Krebs. I am with Rural America and also the rural land alliance project.

Do you want me to proceed with my statement?

Senator Baucus. Why don't you? I encourage you to summarize if you can. However, if you want to read your statement, that is up to you.

Mr. Krebs. Mr. Chairman, my name is A. V. Krebs, rural corporate accountability researcher with Rural America, a national nonprofit membership organization headquartered here in Washington, D.C. I am testifying here today on behalf of Rural America and its rural land alliance project.

We appreciate this committee's invitation and we welcome the opportunity to share with you some of our information, observations, and concerns about the subject of this important hearing, the American Agricultural Investment Management Co., Inc.

Rural America is a national membership organization committed to empowering rural people and to advocating on their behalf in the formulation and implementation of public policies and programs at the national and local level.

The Rural Land Alliance is made up of Rural America members who are involved in land and natural resource struggles. The long-term goal of the alliance is the enactment of a sound national land policy which would keep the land in the hands of those who live on it, or put it in trust for the public good, and prevent it from falling into the hands of large corporations, wealthy individuals, and other absentee owners.

With this goal in mind it is apparent why we are so gravely concerned about such financial schemes as the American Agricultural Investment Management Co.

There is much wisdom in the Chinese philosopher Confucius' adage that "the best fertilizer is the footsteps of the landowner."

Unfortunately, however, today it is the slick soles of corporate America that are trodding about our farmlands.

We believe that corporate profit-oriented thinking presents a clear and present danger to the economic, social, political, and environmental goals of land ownership and control by independent family farms that have been espoused by so many throughout our Nation's history.

For example, Mr. William Cotter, AAIM's president and former vice president for investment product development and marketing for Northern States Trust Co. has said, "It is a mistake to assume the owner-operator system of agriculture is beneficial to the Nation."

For the past half decade there has been considerable alarm over foreign ownership of our agricultural land. Studies indicate that although such sales are increasing, the overall figures are but a fraction of the total acreage in U.S. farmland. The real issue here, however, is a good deal broader than foreign ownership; it is one of absentee ownership.

To better understand why we consider the AAIM an undesirable element in American agriculture, let us examine its corporate profile and background, based on what precious little information is available to us.

American Agricultural Investment Management Co. was established in February 1980 by William S. P. Cotter, Harry J. Bours, and Frank B. Chauner.

Cotter, 43, is the company's president. Mr. Cotter is also a vice president and director of Chauner and Cotter, Inc., a Bannockburn, Ill. investment advising firm, a fact he failed to report in his business background to the Securities and Exchange Commission in AAIM's initial June 28, 1980 filing. In a subsequent filing on August 11, 1980, the Chauner and Cotter relationship was noted.

The firm, which shares offices and "certain administrative support services" with AAIM, reportedly has about $6.5 million under management for individual investors and small employee benefit accounts.

AAIM plans to purchase prime farmland for pension fund investors, lease the land to selected farmers on a farm operator basis and manage it in the most profitiable manner.

There is another aspect concerning the investment of pension funds, however, that gravely concerns us.

In 1979, the Corporate Data Exchange Center in New York issued their comprehensive report, "Pension Investments: A Social Audit." In the introduction they point out:

> Pension funds are the largest pool of capital in the United States. At $500 billion and growing by 10 percent a year, pension funds already own between 20 and 25 percent of the stock of companies listed on the New York and American stock exchanges. Some analysts predict that by 1986, pension funds will be worth $1.3 trillion and provide almost half of all capital raised by U.S. corporations.

Jeremy Rifkin and Randy Barber in their book, "The North Will Rise Again: Pensions, Politics and Power in the 1980's," point out that a huge gulf exists between ownership and actual control of pension plan assets. They cite the fact that the top 100 banks in the Nation controlled $145 billion in pension assets at the end of 1975, with the top 10 banks alone controlling $80 billion. Insurance companies managed $80 billion in pension assets. These financial institutions have concentrated pension investments in a small universe of corporate giants.

At a time when our entire food production industry is experiencing increasing concentration and its resulting consequences, we need to ask ourselves if we want this acceleration toward tighter economic control in agriculture that pension funds promise.

After providing advice on the acquisition and management of farm properties for pension funds, according to papers filed with the SEC, AAIM may also manage funds for their clients in short-term debt securities such as commercial paper prior to a farm purchase. Farm operating cash may from time to time also be invested in short-term debt securities by AAIM.

The fees for advice on the acquisition of farm properties are slated to be 2.5 percent of the value of the property charged once at the time of acquisition. AAIM's management of farm properties and management of short-term debt securities will be provided at an annual fee of three-tenths of 1 percent of the value of the assets involved.

To the best of our knowledge AAIM has no discretionary accounts under management. Indeed, Mr. Cotter has been quoted as saying that, "You have to keep in mind that there's a long lead time in dealing with pension funds." He feels it will be well into 1981 before pension funds may act.

As of May 31, 1980, AAIM's balance sheet shows total assets of $44,579.10 and total liabilities of $129,333.07.

AAIM's current plans are to hire regional managers who will seek suitable operators, who then will split evenly the labor, equipment, and related costs. The operator will receive half of the value of the crops raised on the land.

Decisions, according to Mr. Cotter, concerning the farm, such as which crops to grow and fertilizer to use, will be made by the regional managers on the basis of profit.

We understand that AAIM, in seeking to purchase farms in the Southeast, the delta, Texas, Colorado, and California, has already chosen three firms—Southern Farms & Investments Co., of Tallahassee, Fla., and Blackburn Farms, and Gentle Farms of Fresno, Calif.—to manage the farms they hope to acquire. Few details, however, are available on these three farm management firms.

Southern Farms & Investment Co. is incorporated in the State of Florida. Organized in June 1978, the Tallahassee firm's president is Hines F. Boyd, a member of the Florida Farm Bureau and one-third owner of his family's 2,500-acre farm in Jefferson County, Fla. Hines is a professional farm manager and has expressed interest in wanting to bring both pension fund and overseas money into southwest Florida.

Neither of the other two managers, Blackburn Farms or Gentle Farms, is incorporated in California.

Gentle Farms only came into existence last July, some 5 months after AAIM was incorporated. Its owner, William R. Gentle, a former Security Pacific National Bank officer in Fresno, presently plans to farm 320 acres of cotton in the Westlands Water District on land recently leased from the Southern Pacific Land Co., a subsidiary of the Southern Pacific Transportation Co.

The 600,000-acre Westlands Water District, of course, as you know, is the focal point of the efforts by many, including Rural America, to get enforcement of the 1902 Federal reclamation law, designed to encourage family farms and get such corporate giants as Southern Pacific, J. G. Boswell, Standard Oil of California, Anderson Clayton, and Getty Oil, among others, off the public dole.

It has been reported that there is an equity partner not yet identified—a large west coast real estate development firm that has a 30-percent equity share in AAIM.

In its SEC papers the AAIM notes that John B. Kilroy, Sr., has provided a line of credit to AAIM to borrow at least $250,000. It is anticipated that Mr. Kilroy will receive some equity participation in AAIM, the specifics of which are still subject to negotiation. At this time, Mr. Kilroy is only a creditor of the applicant.

Just in the past 48 hours we have learned a little bit of information about Mr. Kilroy. We would like later to submit that in a letter to the committee.[1]

Senator BAUCUS. Fine.

Mr. KREBS. Since it is unclear at this time to us exactly what the relationship of Mr. Kilroy is to AAIM, our speculation about the identity of the not yet named west coast real estate development equity partner centers around three companies: Security Pacific National Bank; Northrust Farm Management, Inc., a subsidiary of Northern States Trust, which manages over 700,000 acres held in fiduciary capacity in 35 States; and, of course, Continental Illinois Corp. of Chicago.

Earlier in this testimony I indicated that the Rural Land Alliance and Rural America believe, as noted in our platform:

> * * * the concentration of ownership and control of farmland has already gone too far and farmlands must be dispersed among working family farmers. This is the best means for protecting consumers, assuring an abundance of output, and conserving land and water from intolerable exhaustion and pollution.

In this regard we would like to direct this committee's attention to past studies which not only show the independent family-owned farm is the most economically efficient agricultural production unit, but that it is also most desirable from strictly a social and environmental point of view.

Beginning with the famous Arvin-Dinuba study conducted by Dr. Walter Goldschmidt in 1946, through a 1976 update—both expanded upon in Dr. Goldschmidt's book "As You Sow"—and an even more recent study made of 130 towns in California's San Joaquin Valley, findings show that the smaller scale farming areas tend to offer more to the local communities than their large counterparts.

They were better in average income, standard of living, social and physical amenities, social and religious institutions, and participation in and control of the local political process.

In addition to our testimony here today we are entering summaries of some of Dr. Goldschmidt's work.

Probably no one has summed up Dr. Goldschmidt's findings more eloquently than the chairman of this committee, Senator Gaylord Nelson, writing in the introduction to the book "As You Sow."

The Rural Land Alliance and Rural America believe that this country is penny wise and pound foolish when it comes to matters like agriculture. We have formulated national agriculture policy in pursuit of maximum efficiency defined in the narrowest economic terms. Not only do our measures of farm efficiency exclude dollar costs borne by the public, such as the costs of agricultural research and subsidized irrigation water, but they fail entirely to recognize the larger costs to our society which cannot be measured in monetary terms.

---

[1] Information not available at time of going to press.

We can no longer afford to be shortsighted. Instead, we must begin to refine our concept of efficiency to include social, political, and environmental consequences, and we must base our agricultural policies on this broadened definition.

In December 1976, Continental Illinois National Bank of Chicago and Merrill Lynch, Pierce, Fenner & Smith, Inc., one of the Nation's largest investment firms, announced plans for a pooled agricultural land investment fund—Ag-Land Fund I.

When it became public we and other farm, consumer, labor, and public interest groups came before Congress to oppose this scheme. We were successful in thwarting the effort with the help of an unfavorable ruling by the IRS against Ag-Land Fund I.

Now less than 4 years later we confront the American Agricultural Investment Management Co.

Unless some legislation is soon introduced and enacted, these financial brush fires threatening the family farm system in this country will continue to plague us.

If we fail to do so we will have more and more AAIM's, Ag-Land Funds, Tennecos, J. G. Boswells, Castle & Cookes, Burlington Northerns, and other such corporate ventures in agriculture to contend with in the coming years.

It is clearly time that both Houses of Congress enact antitrust legislation which would limit the size of corporations that can own and/or control agricultural land and which would return the untold thousands of acres already under nonfarm corporate ownership to legitimate independent enterprises.

Several States are making efforts to implement such laws. One such State is Iowa, which recently ruled that its law would prohibit AAIM operations within the State.

Passage of similar legislation on a national level would help stop corporate involvement in agricultural production and is, therefore, urgently needed. But it is not enough.

Absentee ownership and farm tenancy will continue to increase so long as wealthy individuals can engage in tax loss farming to shelter nonfarm income and so long as there is a greater profit in speculating in land than in farming it.

The real solution, Mr. Chairman, is a total overhaul of national agricultural policies—including reform of the Federal tax code and enforcement of the Reclamation Act—to promote the viability of owner-operated family farms.

To understand the truly personal consequences of ventures like the American Agriculture Investment Management Co. and the threat posed by AAIM to family farmers, we need to listen to those people on the land, the people who see their neighbors leaving and their dreams for the future disappearing.

Such people are Marilyn Fedelchak, a member of the policy board of the Rural Land Alliance, and her husband George Naylor, who raise grain on their 320-acre farm in Iowa. In the most recent issue of Rural America, our monthly newspaper, they wrote the following. In conclusion, I would like to include some excerpts from that article:

> We are sharecroppers on our land. When we harvest our fifth crop this fall, half will go to the landlord. But we are lucky just to be farming. Our landlord is not a firm like American Agricultural Investment Management Corporation; our landlord is the older generation of the Naylor family.
>
> George grew up on this farm; his parents built the house we live in when they were first married. George tried to live in urban areas and work at other types of occupations, but his heart was always in farming and that is what he finally came home to.
>
> The Naylors were willing to overlook our inexperience and low net worth. In fact, they provided advice, encouragement, much of our capital at low interest rates and quite a fair lease agreement—they pay for half the seed, fertilizer and herbicide. We are not pushed into risky capital-intensive joint ventures because the Naylor family's income does not warrant such tax maneuvers.
>
> Would AAIM be willing to gamble on two young people with little or no experience, no capital, no machinery and some crazy ideas? Of course not. It would look to our neighbor, the man who already has excess machinery, proven skills and capital to borrow against when times are hard, as they too often are.
>
> Our tenant-landlord relationship is a family relationship based on human concerns and needs of each other, not the economic concerns based on exploitation of labor and land. With AAIM as landlord, our farming operation would be determined by the interests of investors based on the advice of Philadelphia lawyers, high-powered computers and a manual on industrial management.
>
> The proposal put forth by AAIM is filled with problems and threats for America's family farm. As we have suggested, AAIM's tenancy is not an access point for entry into agriculture. It is tenancy as a dead-end. AAIM would enjoy tax advantages that would exacerbate the inflation of land prices. A tenant without land equity could never win a game of "catch-up" with land inflation.
>
> Efforts must be made to ensure that ownership be made available to farmers. The issue is not preserving the nostalgic "family farm" because it embodies hard work and moral values. The issue is ownership of a natural resource by the people who are working the land to produce food and earn a living. The alternative is a system where all natural resources are locked up in the hands of big banks and big corporations.

The Naylors conclude:

> Every article we read about AAIM talks about how agriculture is under-capitalized; the plan will be a life-saving transfusion of capital into a sagging system. Let us not be fooled into thinking that the solution is outside capital—capital that cannot be held accountable to the community or the people. Rather, let us implement ways to get capital into the hands of those who are working and caring for the land. Farmers must have a return on investment that allows them to compete in our economy, or they will be destroyed.
>
> Farmland is literally the last natural resource in America to be in the hands of those who are working it. We must struggle to keep it that way.

Thank you.

Senator Baucus. Mr. Krebs, thank you very much. Your statement in its entirety will be made part of the hearing record.

[The prepared statement of Mr. Krebs follows:]

Rural America
1346 Connecticut Avenue NW Washington DC 20036 phone: (202) 659-2800

TESTIMONY AND SUBMISSIONS

Statement by A.V. Krebs, Rural America, Before the U.S. Senate Small Business Committee, October 8, 1980.

"Overhaul of Agriculture Policy Needed to Stop Corporate Takeover of Farmland," Rural America press release, October 8, 1980.

"Ag-Land Revived Under New Name," *ruralamerica*, Summer, 1980.

"Pension funds to buy farms?", *NFO Reporter*, July, 1980

"Farmland As An Institutional Investment," by William S.P. Cotter, An Address to The Investment Technology Association, Boston - April, 1980.

Letter to Hon. Elmer Staats, U.S. General Accounting Office from U.S. House of Representatives Subcommittee on Family Farms, Rural Development and Special Studies, July 16, 1980.

Letter to Hon. Robert W. Kastenmeier from U.S. Secretary of Agriculture Bob Bergland, August 6, 1980.

Letter to Mr. William S.P. Cotter from Thomas J. Miller, Attorney General of Iowa, May 22, 1980.

"Special Report: New farm phenomenon - The giant land funds," *The AgBiz Tiller*, Issue No. 5, May, 1977.

"The Lament of a Nebraska Farm Wife," by Marian Lenzen, *Los Angeles Times*, March 19, 1978.

"A Background Report on the Family Farm Antitrust Act of 1979," by A.V. Krebs, Agribusiness Accountability Publications.

Text of H.R. 7822 - "Family Farm Antitrust Act of 1980.

Chapter 172C. Corporate or Partnership Farming, Iowa Administrative Code.

The Loss of Our Family Farms: Inevitable Results or Conscious Policies? by Mark Ritchie.

"Efficiency Winner - To the One Man Farm," *Agricultural Situation*, The Crop Reporters Magazine, USDA, March, 1974.

Testimony of Walter Goldschmidt, Professor of Anthropology, UCLA, on S.334 - Family Farm Antitrust Act of 1979, May 15, 1979.

"The Rural Foundation of the American Culture," by Dr. Walter Goldschmidt, A Gregory Foundation Memorial Lecture, January 26, 1976.

Perspectives on the Structure of American Agriculture, Volume II, *Federal Farm Policies*, *Prepared by Rural America*/Community Services Administration, "'From Seedling to Supermarket'," by A.V. Krebs and "The Hidden Link" by Peggy Borgers.

Text of H.R. 3393 - "Reclamation Lands Opportunity Act."

"Sowing the Till: A Background Paper on Tax Loss Farming," by Jeanne Dangerfield: Corporate Research by A.V. Krebs, Published by the Agribusiness Accountability Project, 1973.

#####

STATEMENT
BY
A.V. KREBS
RURAL CORPORATE ACCOUNTABILITY RESEARCH PROJECT
RURAL AMERICA
1346 CONNECTICUT AVENUE, N.W., WASHINGTON, D.C.
BEFORE THE
U.S. SENATE SMALL BUSINESS COMMITTEE
OCTOBER 8, 1980

MR. CHAIRMAN, MY NAME IS A.V. KREBS, RURAL CORPORATE ACCOUNTABILITY RESEARCHER WITH RURAL AMERICA, A NATIONAL NON-PROFIT MEMBERSHIP ORGANIZATION, HEADQUARTERED HERE IN WASHINGTON, D.C. I AM TESTIFYING HERE TODAY ON BEHALF OF RURAL AMERICA AND ITS RURAL LAND ALLIANCE PROJECT.

WE APPRECIATE THE SENATE SMALL BUSINESS COMMITTEE'S INVITATION AND WELCOME THE OPPORTUNITY TO SHARE WITH YOU SOME OF OUR INFORMATION, OBSERVATIONS AND CONCERNS ABOUT THE SUBJECT OF THIS IMPORTANT HEARING, THE AMERICAN AGRICULTURAL INVESTMENT MANAGEMENT COMPANY, INC.

RURAL AMERICA IS A NATIONAL MEMBERSHIP ORGANIZATION COMMITTED TO EMPOWERING RURAL PEOPLE AND TO ADVOCATING ON THEIR BEHALF IN THE FORMULATION AND IMPLEMENTATION OF PUBLIC POLICIES AND PROGRAMS AT THE NATIONAL AND LOCAL LEVEL.

THE RURAL LAND ALLIANCE IS MADE UP OF RURAL AMERICA MEMBERS WHO ARE INVOLVED IN LAND AND NATURAL RESOURCE STRUGGLES. THE

LONG TERM GOAL OF THE ALLIANCE IS THE ENACTMENT OF A SOUND NATIONAL LAND POLICY WHICH WOULD KEEP THE LAND IN THE HANDS OF THOSE WHO LIVE ON IT, OR PUT IT IN TRUST FOR THE PUBLIC GOOD, AND PREVENT IT FROM FALLING INTO THE HANDS OF LARGE CORPORATIONS, WEALTHY INDIVIDUALS, AND OTHER ABSENTEE OWNERS.

WITH THIS GOAL IN MIND IT IS APPARENT WHY WE ARE SO GRAVELY CONCERNED ABOUT SUCH FINANCIAL SCHEMES AS THE AMERICAN AGRICULTURAL INVESTMENT MANAGEMENT CO., INC.

CHANGING STRUCTURE

THERE IS MUCH WISDOM IN THE CHINESE PHILOSOPHER CONFUCIUS' ADAGE THAT "THE BEST FERTILIZER IS THE FOOTSTEPS OF THE LANDOWNER." UNFORTUNATELY, HOWEVER, TODAY IT IS THE SLICK SOLES OF CORPORATE AMERICA THAT ARE TRODDING ABOUT OUR FARM LANDS.

WE BELIEVE THAT CORPORATE PROFIT-ORIENTED THINKING PRESENTS A CLEAR AND PRESENT DANGER TO THE ECONOMIC, SOCIAL, POLITICAL AND ENVIRONMENTAL GOALS OF LAND OWNERSHIP AND CONTROL BY INDEPENDENT FAMILY FARMS THAT HAVE BEEN ESPOUSED BY SO MANY THROUGHOUT OUR NATION'S HISTORY.

FOR EXAMPLE, MR. WILLIAM COTTER, AAIM'S PRESIDENT AND FORMER VICE-PRESIDENT FOR INVESTMENT PRODUCT DEVELOPMENT AND MARKETING FOR NORTHERN STATES TRUST CO. HAS SAID, "IT IS A MISTAKE TO ASSUME THE OWNER-OPERATOR SYSTEM OF AGRICULTURE IS BENEFICIAL TO THE NATION."

For the past half-decade there has been considerable alarm over foreign ownership of our agricultural land. Studies indicate that although such sales are increasing the over-all figures are but a fraction of the total acreage in U.S. farmland. The real issue here, however, is a good deal broader than foreign ownership; it is one of absentee ownership.

Howard Hjort, Director of U.S.D.A.'s Economics, Statistics and Cooperative Service told a House Agriculture subcommittee on the family farm in June, 1973:

> "Perhaps the single most important structural change which may be occuring in the agricultural sector today is the increasing frequency of the separation of ownership from operation, in some part encouraged by the attractiveness of farm land investment."

To better understand why we consider the AAIM an undesirable element in American agriculture, let us examine its corporate profile and background, based on what precious little information is available to us. Hopefully, the General Accounting Office (GAO) study, requested in July by the U.S. House of Representatives Subcommittee on Family Farms, Rural Development and Special Studies, will soon provide us with much more needed information.

Who's In Charge?

American Agricultural Investment Management Co, Inc. was established in February, 1980 by William S.P. Cotter, Harry J. Boups, and Frank B. Chauner.

Cotter, 43, is the company's president. In addition to serving five years with Northern States Trust, he also briefly served as vice president for investment marketing for Bankers Trust, N.Y. (1974-75), a part-time consultant for the U.S. Department of Commerce, Office of Minority Business Opportunity (sic) here in Washington, D.C. (1974), and vice-president for investment marketing with Smith, Barney & Co., Inc., N.Y. (1970-74).

Mr. Cotter is also a vice president and director of Chauner & Cotter Inc., a Bannockburn, Illinois investment advising firm, a fact he failed to report in his business background to the Securities and Exchange Commission (SEC) in AAIM's initial June 28, 1980 filing. In a subsequent filing on August 11, 1980 the Chauner & Cotter relationship was noted.

The firm, which shares offices and "certain administrative support services" with AAIM, reportedly has about $6.5 million under management for individual investors and small employee benefit accounts.

Harry J. Bours, 39, AAIM's executive vice-president and an agricultural economist, served for 11 years (1969-80) with Northern States Trust and its subsidiary, Nortrust Farm Management in the company's management of farms.

Frank Chauner, 34, not only serves as the AAIM's vice president and secretary tresurer, but also as president of Chauner & Cotter Inc. With a background in accounting, technical analysis and computer applications to investment technology, He was also senior portfolio manager for Northern Trust for six years (1974-80) and a second vice president and senior portfolio manager for Smith, Barney & Co. (1969-80).

Pension Funds

AAIM plans to purchase prime farmland for pension-fund investors, lease the land to selected farmers on a "farm operator" basis and manage it "in the most profitable manner."

Secretary of Agriculture Bob Bergland has noted that,

> "...the purchase of farmland offers the pension funds an opportunity to broaden their portfolios and reduce risk, and it offers individuals the opportunity to invest in an asset whose real value (after adjusting for inflation) has increased at an average annual rate of 5.5% over the last ten years.
>
> "Income taxes on both the contributions into pension funds and the returns that they earn are postponed until the disbursement of the funds. These tax advantages will provide those participating in the pension fund with an advantage over family farmers who do not receive similar tax breaks when they invest in farmland to enlarge their farms."

There is another aspcet concerning the investment of pension funds, however, that gravely concerns us.

In 1979, the Corporate Data Exchange Center in New York issued their comprehensive report, "Pension Investments: A Social Audit". In the introduction they point out:

> "Pension funds are the largest pool of capital in the United States. At $500 billion and growing by 10% a year, pension funds already own between 20 and 25 percent of the stock of companies listed on the New York and American stock exchanges. Some analysts predict that by 1986, pension funds will be worth $1.3 trillion and provide almost half of all capital raised by U.S. corporations.

> "Senator Howard Metzenbaum (D-Ohio), who recently held Congressional hearings on pension funds stated, 'Pension funds have. . .become one of the most important sources of capital in the Nation's financial markets. Without question, those who *manage* the pension funds are in a position to play a *crucial role* in determining the *nature and direction* of the Nation's economic growth and development.'" (emphasis added)

Several years ago the late Senator Philip Hart predicted the battle over control of pension funds would be the "central structural and policy problem of the American economy and society for years to come."

Jeremy Rifkin and Randy Barber in their book, *The North Will Rise Again: Pensions, Politics and Power in the 1980's*, point out that a huge gulf exists between ownership and actual control of pension plan assets. They cite the fact that the top 100 banks in the nation controlled $145 billion in pension assets at the end of 1975, with the top ten banks alone controlling $80 billion. Insurance companies managed $80 billion in pension assets. These financial institutions have concentrated pension investments in a small universe of corporate giants.

And they effectively argue that the separation between ownership and control of pension funds has played a major role in the decline of organized labor and the economic crisis which now plagues the industrial Northeast and Midwest.

At a time when our entire food production industry is experiencing increasing concentration and its resulting consequences, we need to ask ourselves if we want this acceleration toward tighter economic control in agriculture that pension funds promise.

WILLIAM COTTER TOLD AN INVESTMENT TECHNOLOGY ASSOCIATION MEETING IN BOSTON LAST APRIL:

> ". . .THE CASE WE ARE GOING TO MAKE TODAY IS NOT MERELY THAT AMERICAN FARMLAND WOULD BE A LOGICAL ADDITION TO ANY INSTITUTIONAL REAL ESTATE PORTFOLIO, BUT FURTHER THAT BECAUSE FARMLAND IS SUCH A HUGE PROPORTION OF TOTAL REAL ESTATE, AND AGRICULTURE IS SO IMPORTANT TO OUR ECONOMY, NO PORTFOLIO WOULD BE TRULY DIVERSIFIED WITHOUT A SIGNIFICANT PARTICIPATION IN OUR FARM ECONOMY."

MANAGING THE FUNDS

AFTER PROVIDING ADVICE ON THE ACQUISITION AND MANAGEMENT OF FARM PROPERTIES FOR PENSION FUNDS, ACCORDING TO PAPERS FILED WITH THE SEC, AAIM MAY ALSO MANAGE FUNDS FOR THEIR CLIENTS IN SHORT-TERM DEBT SECURITIES SUCH AS COMMERCIAL PAPER PRIOR TO A FARM PURCHASE. FARM OPERATING CASH MAY FROM TIME TO TIME ALSO BE INVESTED IN SHORT-TERM DEBT SECURITIES BY AAIM.

THE FEES FOR ADVICE ON THE ACQUISITION OF FARM PROPERTIES ARE SLATED TO BE 2 1/2% OF THE VALUE OF THE PROPERTY CHARGED ONCE AT THE TIME OF ACQUISITION. AAIM'S MANAGEMENT OF FARM PROPERTIES AND MANAGEMENT OF SHORT-TERM DEBT SECURITIES WILL BE PROVIDED AT AN ANNUAL FEE OF 3/10 OF 1% OF THE VALUE OF THE ASSETS INVOLVED.

MANAGEMENT FEES WILL BE CHARGED QUARTERLY AT THE END OF A QUARTER AND CONTRACTS ARE TO BE FOR ONE YEAR AND MAY BE CANCELLED ON 90 DAYS NOTICE AFTER ONE YEAR.

TO THE BEST OF OUR KNOWLEDGE AAIM HAS "NO DISCRETIONARY ACCOUNTS UNDER MANAGEMENT". INDEED, MR. COTTER HAS BEEN QUOTED AS SAYING THAT "YOU HAVE TO KEEP IN MIND THAT THERE'S A LONG

LEAD TIME IN DEALING WITH PENSION FUNDS." HE FEELS IT WILL BE WELL INTO 1981 BEFORE PENSION FUNDS MAY ACT.

IT IS INTERESTING TO NOTE THAT WHEN THE NATIONAL FARMERS ORGANIZATION REPORTER ASKED HIM WHAT MIGHT HAPPEN IF THE PENSION FUNDS DON'T ACT HE RESPONSED:

"THERE IS A HUGE AND ENORMOUS MARKET IN PRIVATE INVESTMENT" FOR FARMLAND AND THAT AAIM WOULD BE HAPPY TO FILL THAT DEMAND.

AS OF MAY 31, 1980 AAIM'S BALANCE SHEET (WITH "PRO FORMS TO REFLECT SALES OF STOCK") SHOWS TOTAL ASSETS OF $44,579.10 AND TOTAL LIABILITIES OF $129,333.07.

THE REGIONAL MANAGERS

AAIM'S CURRENT PLANS ARE TO HIRE REGIONAL MANAGERS WHO WILL SEEK SUITABLE "OPERATORS", WHO THEN WILL SPLIT EVENLY THE LABOR, EQUIPMENT AND RELATED COSTS. THE OPERATOR WILL RECEIVE HALF OF THE VALUE OF THE CROPS RAISED ON THE LAND.

DECISIONS, ACCORDING TO MR. COTTER, CONCERNING THE FARM, SUCH AS WHICH CROPS TO GROW AND FERTILIZER TO USE, WILL BE MADE BY THE REGIONAL MANAGERS ON THE BASIS OF PROFIT.

WE UNDERSTAND THAT AAIM, IN SEEKING TO PURCHASE FARMS IN THE SOUTHEAST, THE DELTA, TEXAS, COLORADO AND CALIFORNIA, HAS ALREADY CHOSEN THREE FIRMS --- SOUTHERN FARMS AND INVESTMENTS CO. OF TALLAHASSEE, FLORIDA, AND BLACKBURN FARMS AND GENTLE FARMS OF FRESNO, CALIFORNIA --- TO MANAGE THE FARMS THEY HOPE TO ACQUIRE. FEW DETAILS, HOWEVER, ARE AVAILABLE ON THESE THREE "FARM MANAGEMENT" FIRMS.

Southern Farms and Investment Co. is incorporated in the State of Florida. Organized in June, 1978 the Tallahassee firm's president is Hines F. Boyd, a member of the Florida Farm Bureau, and one-third owner of this family's 2500 acre farm in Jefferson County, Florida. Hines is a professional farm manager and has expressed interest in wanting to bring both pension fund and overseas money into Southwest Florida.

The firm's treasurer is John B. Richardson of Tallahassee and the Secretary is Frederick M. Bryant, associated with the law firm of Rhodes, Stephens & Bryant, which represents Florida banks and utility companies.

Neither of the other two managers, Blackburn Farms or Gentle Farms, are incorporated in California.

Gentle Farms only came into existence last July, some five months after AAIM was incorporated. Its owner, William R. Gentle, a former Security Pacific National Bank officer in Fresno, presently plans to farm 320 acres of cotton in the Westlands Water District on land recently leased from Southern Pacific Land Co., a subsidiary of the Southern Pacific Transportation Co.

The 600,000 acre Westlands Water District, of course, is the focal point of the efforts by many including RURAL AMERICA to get enforcement of the 1902 Federal Reclamation Law, designed to encourage family farms, and get such corporate giants as Southern Pacific, J.G. Boswell, Standard Oil of California, Anderson Clayton and Getty Oil among others off the public dole.

It has been reported that there is an equity partner not yet identified --- a large West Coast real estate development firm that has a 30% equity share in AAIM.

In its SEC papers the AAIM notes that John B. Kilroy, Sr. has provided a line of credit to AAIM to borrow at least $250,000. It is anticipated that Mr. Kilroy will receive "some equity participation" in AAIM, the specifics of which are still subject to negotiation. "At this time, Mr. Kilroy is only a creditor of the applicant."

Since it is unclear at this time to us exactly what the relationship of Mr. Kilroy is to the AAIM, our speculation about the identity of the not yet named West Coast real estate development equity partner centers around three companies.

*Security Pacific National Bank (the nation's third largest agricultural lender with $356.2 million in 1979 and assets of $24.9 billion) has several mortgage and venture capital subsidiaries. This bank's policies are determined by board members representing a veritable who's who of western corporate agribusiness giants such as J.G. Boswell, Superior Oil, Limonerita Co., Sunkist Growers and others.

*Nortrust Farm Management Inc., a subsidiary of Northern States Trust, manages over 700,000 acres held in a fiduciary capacity in 35 states. In 1979 the firm, headquartered in Phoenix, Arizona, "assumed major new assignments in the Southwest and on the West Coast involving conventional seasonal crops as well as permanent crops."

*CONTINENTAL ILLINOIS CORP. OF CHICAGO ALSO OPERATES A VARIETY OF REAL ESTATE DEVELOPMENT SERVICES ALTHOUGH ITS TWO PUBLICLY-HELD REAL ESTATE INVESTMENT TRUSTS WERE ACQUIRED SEVERAL MONTHS AGO BY OUTSIDE INVESTORS.

THE QUESTION OF EFFICIENCY

EARLIER IN THIS TESTIMONY I INDICATED THAT THE RURAL LAND ALLIANCE AND RURAL AMERICA BELIEVE, AS NOTED IN OUR PLATFORM,

> ". . .THE CONCENTRATION OF OWNERSHIP AND CONTROL OF FARM LAND HAS ALREADY GONE TOO FAR AND FARM LANDS MUST BE DISPERSED AMONG WORKING FAMILY FARMERS. THIS IS THE BEST MEANS FOR PROTECTING CONSUMERS, ASSURING AN ABUNDANCE OF OUTPUT, AND CONSERVING LAND AND WATER FROM INTOLERABLE EXHAUSTION AND POLLUTION."

IN THIS REGARD WE WOULD LIKE TO DIRECT THIS COMMITTEE'S ATTENTION TO PAST STUDIES WHICH NOT ONLY SHOW THE INDEPENDENT FAMILY-OWNED FARM IS THE MOST ECONOMICALLY EFFICIENT AGRICULTURAL PRODUCTION UNIT, BUT THAT IT IS ALSO MOST DESIRABLE FROM STRICTLY A SOCIAL AND ENVIRONMENTAL POINT OF VIEW.

BEGINNING WITH THE FAMOUS "ARVIN-DINUBA STUDY" CONDUCTED BY DR. WALTER GOLDSCHMIDT IN 1946, THROUGH A 1976 UPDATE (BOTH EXPANDED UPON IN DR. GOLDSCHMIDT'S BOOK AS YOU SOW) AND AN EVEN MORE RECENT STUDY MADE OF 130 TOWNS IN CALIFORNIA'S SAN JOAQUIN VALLEY, FINDINGS SHOW THAT "THE SMALLER SCALE FARMING AREAS TEND TO OFFER MORE TO THE LOCAL COMMUNITIES THAN THEIR LARGE COUNTERPARTS."

THEY WERE BETTER IN AVERAGE INCOME, STANDARD OF LIVING, SOCIAL AND PHYSICAL AMENTITIES, SOCIAL AND RELIGIOUS INSTITUTIONS AND PARTICIPATION IN, AND CONTROL OF, THE LOCAL POLITICAL PROCESS.

(In addition to our testimony here today we would like to submit for the record some of Dr. Goldschmidt's work along with other relevant material we believe germane to this subject.)

No one has summed up Dr. Goldschmidt's findings more eloquently than the chairman of this committee. Writing in the introduction to As You Sow Senator Gaylord Nelson stated:

> "This country has given inadequate attention to many of its precious resources. One of these resources is its pool of independent farmers. The family farm provides a social environment in which the central virtues of American life are fostered. It is at once a business, a job and a set of family relationships. At best, it does not provide an easy life and in bad times there are often harsh difficulties. But it provides a good life, and one in which independence, industry, hard work, foresight, cooperation and other qualities central to America's needs are fostered. For most of our history, the family farm has been the seedbed of our culture.

Senator Nelson continues:

> "This relationship was well understood by the founders of our nation, and support for it was written into our constitution and reaffirmed in legislation, particularly the homestead laws and the Reclamation Act of 1902. The independent family farm is therefore an institution created by the foresight and planning of the makers of America. But throughout our history there have been those who, in the pursuit of selfish interest, in their desire for wealth and power, have threatened this traditional American institution. It is currently being threatened by the corporate control of agriculture.
>
> "The Reclamation Act, for instance, was specifically designed to foster family farming, but the law has been seriously distorted by successive administrations. . . .This largely sponsored by the government --- of the position of the family farm."

PENNY-WISE AND POUND FOOLISH

THE RURAL LAND ALLIANCE AND RURAL AMERICA BELIEVE THAT THIS COUNTRY IS PENNY-WISE AND POUND FOOLISH WHEN IT COMES TO MATTERS LIKE AGRICULTURE. WE HAVE FORMULATED NATIONAL AGRICULTURE POLICY IN PURSUIT OF MAXIMUM EFFICIENCY DEFINED IN THE NARROWEST ECONOMIC TERMS. NOT ONLY DO OUR MEASURES OF FARM EFFICIENCY EXCLUDE DOLLAR COSTS BORNE BY THE PUBLIC, SUCH AS THE COSTS OF AGRICULTURE RESEARCH AND SUBSIDIZED IRRIGATION WATER, BUT THEY FAIL ENTIRELY TO RECOGNIZE THE LARGER COSTS TO OUR SOCIETY WHICH CANNOT BE MEASURED IN MONETARY TERMS. WE CAN NO LONGER AFFORD TO BE SHORT-SIGHTED. INSTEAD, WE MUST BEGIN TO REFINE OUR CONCEPT OF EFFICIENCY TO INCLUDE SOCIAL, POLITICAL AND ENVIRONMENTAL CONSEQUENCES, AND WE MUST BASE OUR AGRICULTURAL POLICIES ON THIS BROADENED DEFINITION.

IN DECEMBER, 1976 CONTINENTAL ILLINOIS NATIONAL BANK OF CHICAGO AND MERRILL LYNCH, PIERCE, FENNER AND SMITH, INC., ONE OF THE NATION'S LARGEST INVESTMENT FIRMS, ANNOUNCED PLANS FOR A POOLED AGRICULTURAL LAND INVESTMENT FUND --- AG-LAND FUND I.

THE PROPOSED FUND WAS DESIGNED FOR A MAXIMUM TOTAL INVESTMENT OF $50,000,000 WHICH WOULD BE USED TO PURCHASE GEOGRAPHICALLY DIVERSIFIED WORKING FARMS THAT PRODUCED A VARIETY OF CROPS. THE GIANT FINANCIAL INSTITUTIONS SOUGHT A RULING FROM THE INTERNAL REVENUE SERVICE WHICH WOULD DECLARE THAT AG-LAND FUND I WAS A TRUST AND NOT AN AGRICULTURAL

BUSINESS AND THEREFORE CERTAIN PROFITS AND CAPITAL GAINS FROM THE FUND WOULD BE TAX EXEMPT.

WHEN IT BECAME PUBLIC WE AND OTHER FARM, CONSUMER, LABOR AND PUBLIC INTEREST GROUPS CAME BEFORE CONGRESS TO OPPOSE THIS SCHEME. WE WERE SUCCESSFUL IN THWARTING THE EFFORT WITH THE HELP OF AN UNFAVORABLE RULING BY THE IRS AGAINST AG-LAND FUND I.

NOW, LESS THAN FOUR YEARS LATER, WE CONFRONT THE AMERICAN AGRICULTURAL INVESTMENT MANAGEMENT CO, INC.

UNLESS SOME LEGISLATION IS SOON INTRODUCED AND ENACTED, THESE FINANCIAL BRUSH FIRES THREATENING THE FAMILY FARM SYSTEM IN THIS COUNTRY WILL CONTINUE TO PLAGUE US.

IF WE FAIL TO DO SO WE WILL HAVE MORE AND MORE AAIMS, AG-LAND FUNDS, TENNECOS, J.G. BOSWELLS, CASTLE & COOKES, BURLINGTON NORTHERNS AND OTHER SUCH CORPORATE VENTURES IN AGRICULTURE TO CONTEND WITH IN THE COMING YEARS.

IT IS CLEARLY TIME THAT BOTH HOUSES OF CONGRESS ENACT ANTI-TRUST LEGISLATION WHICH WOULD LIMIT THE SIZE OF CORPORATIONS THAT CAN OWN AND/OR CONTROL AGRICULTURAL LAND AND WHICH WOULD RETURN THE UNTOLD THOUSANDS OF ACRES ALREADY UNDER NON-FARM CORPORATE OWNERSHIP TO LEGITIMATE INDEPENDENT ENTERPRISES. AS THE RURAL AMERICA PLATFORM DECLARES:

> ". . .THERE MUST BE LEGISLATION AT BOTH FEDERAL AND STATE LEVELS TO PROHIBIT BUSINESSES WITH MAJOR INVESTMENTS IN NON-FARM ASSETS FROM ENGAGING IN AGRICULTURAL PRODUCTION, AND TO BAN OWNERSHIP OF FARMLANDS BY CORPORATIONS. . ."

Several states are making efforts to implement such laws. One such state is Iowa, which recently ruled that its law would prohibit AAIM operations within the state. (A copy of the Iowa law and a letter from the State Attorney General's office to AAIM's Mr. Cotter informing him that his venture would be unwelcomed in that state are appended to this testimony.)

An Overhaul of National Ag Policy

Passage of similar legislation on a national level would help stop corporate involvement in agricultural production and is, therefore, urgently needed. But it is not enough. Absentee ownership and farm tenancy will continue to increase so long as wealthy individuals can engage in tax loss farming to shelter non-farm income and so long as there is a greater profit in speculating in land than in farming it. The real solution, Mr. Chairman, is a total overhaul of national agriculture policies -- including reform of the federal tax code and enforcement of the Reclamation Act -- to promote the viability of owner-operated family farms.

The Human Relationship To Land

To understand the truly personal consequences of ventures like the American Agriculture Investment Management Co., and the threat posed by AAIM to family farmers, we need to listen to those people on the land, the people who see their neighbors leaving and their dreams for the future disappearing.

Such people are Marilyn Fedelchak, a member of the policy board of the Rural Land Alliance, and her husband George Naylor who raise grain on their 320 acre farm in Iowa. In the

MOST RECENT ISSUE OF RURALAMERICA, OUR MONTHLY NEWSPAPER, THEY WROTE:

> *We are sharecroppers on our land. When we harvest our fifth crop this fall, half will go to the landlord. But we are lucky just to be farming. Our landlord is not a firm like American Agricultural Investment Management Corporation (AAIM); our landlord is the older generation of the Naylor family.*
>
> *George grew up on this farm; his parents built the house we live in when they were first married. George tried to live in urban areas and work at other types of occupations, but his heart was always in farming and that is what he finally came home to.*
>
> *The Naylors were willing to overlook our inexperience and low net worth. In fact, they provided advice, encouragement, much of our capital at low interest rates and quite a fair lease agreement -- they pay for half the seed, fertilizer and herbicide. We are not pushed into risky capital-intensive joint ventures because the Naylor family's income does not warrant such tax maneuvers.*
>
> *Would AAIM be willing to gamble on two young people with little or no experience, no capital, no machinery and some crazy ideas? Of course not. It would look to our neighbor, the man who already has excess machinery, proven skills and capital to borrow against when times are hard as they too often are.*
>
> *Our tenant-landlord relationship is a family relationship based on human concerns and needs of each other, not the economic concerns based on exploitation of labor and land. With AAIM as landlord, our farming operation would be determined by the interests of investors, based on the advice of Philadelphia lawyers, high-powered computers and manual on industrial management. . . .*

The proposal put forth by AAIM is filled with problems and threats for America's family farm. As we have suggested, AAIM's tenancy is not an access point for entry into agriculture. It is tenancy as a dead-end. AAIM would enjoy tax advantages that would exacerbate the inflation of land prices. A tenant without land equity could never win a game of "catch-up" with land inflation. . . .

Efforts must be made to ensure that ownership be made available to farmers. The issue is not preserving the nostalgic "family farm" because it embodies hard work and moral values. The issue is ownership of a natural resource by the people who are working the land to produce food and earn a living. The alternative is a system where all natural resources are locked up in the hands of big banks and big corporations.

Every article we read about AAIM talks about how agriculture is undercapitalized; the plan will be a life-saving transfusion of capital into a sagging system. Let us not be fooled into thinking that the solution is outside capital -- capital that cannot be held accountable to the community or the people. Rather, let us implement ways to get capital into the hands of those who are working and caring for the land. Farmers must have a return on investment that allows them to compete in our economy, or they will be destroyed.

Farmland is literally the last natural resource in America to be in the hands of those who are working it. We must struggle to keep it that way.

PRESS RELEASE
rural america

1346 Connecticut Avenue NW Washington DC 20036

Contact: A.V. Krebs or
Peggy Borgers
(202) 659-2800

OVERHAUL OF AGRICULTURE POLICY NEEDED TO STOP CORPORATE TAKEOVERS OF FARMLAND

For Release: On Receipt

Expressing alarm over the "corporate profit-oriented thinking" that spawns such devices as the American Agricultural Investment Management Co. Inc. (AAIM), Rural America told a Senate subcommittee Oct. 8 that it is time for a "total overhaul of national agricultural policies" to stop such financial schemes.

"If we fail to do so we will have more and more AAIMs, Ag-Land Funds, Tennecos, J.G. Boswells, Castle & Cookes, Burlington Northerns and other such corporate ventures to contend with in agriculture in the coming years," Rural America spokesperson A.V. Krebs told the Senate Small Business Committee during oversight hearings on the AAIM plan.

AAIM, founded in February, 1980 by three former executives of Chicago's Northern States Trust Co., hopes to secure pension funds to invest in prime farmland throughout the U.S., buying land from small farmers and hiring "managers" to oversee operations.

(More)

Testifying on behalf of Rural America and its Rural Land Alliance project, Krebs recalled that the adage of the Chinese philosopher Confucius that "the best fertilizer is the footsteps of the landowner.

"Unfortunately, however, today it is the slick soles of corporate America that are trodding about our farm lands," he said.

Quoting from the Rural America platform, Krebs noted that "the concentration of ownership and control of farmland has already gone too far and farm lands must be dispersed among working family farmers. This is the best means for protecting consumers, assuring an abundance of output, and conserving land and water from intolerable exhaustion and pollution."

He added that several studies not only show that the independent family-owned farm is the most economically efficient form of agricultural productivity, but that it also is the most desirable from a social and environmental point of view.

"We have formulated national agriculture policy in pursuit of maximum efficiency defined in the narrowest economic terms. Not only do our measures of farm efficiency exclude dollar costs borne by the public, such as the costs of agricultural research and subsidized irrigation water, but they fail entirely to recognize the larger costs to our society which cannot be measured in monetary terms," Krebs said.

"We can no longer afford to be short-sighted. Instead, we must begin to refine our concept of efficiency to include social, political and environmental consequences, and we must base our agricultural policies on this broadened definition."

(More)

Rural America urged the Senate committee to enact anti-trust legislation that would limit corporate ownership and control of agricultural land and that would return thousands of acres already under non-farm corporate ownership to legitimate independent farming enterprises.

Iowa's family farm law was cited as an example of the type of legislation needed at the federal level.

"Absentee ownership and farm tenancy will continue to increase so long as wealthy individuals can engage in tax loss farming to shelter non-farm income and so long as there is a greater profit in speculating in land than in farming it," Krebs said.

"The real solution is a total overhaul of national agriculture policies -- including reform of the federal tax code and enforcement of the 1902 Reclamation Act -- to promote the viability of owner-operated family farms."

Rural America is a national membership organization, based in Washington, D.C., that works to empower rural people and advocate on their behalf at the national and local levels. The Rural Land Alliance is made up of Rural America members who are involved in land and natural resource struggles.

(Two articles on AAIM from the current issue of ruralamerica are attached. Copies of Rural America testimony available on request.)

ruralamerica, October, 1980

Feds Are Taking Dim View

Opposition to Farm-Investment Firm Mounts

by A.V. Krebs

Amid growing concern by the U.S. Department of Agriculture (USDA) and a variety of farm and rural organizations over its long-range effect on the structure of agriculture, the American Agriculture Investment Management Co., Inc. (AAIM) has become the target of two congressional committees and a General Accounting Office (GAO) investigation.

The company, established in February by three former executives of the Northern States Trust Co. bank of Chicago, plans to purchase prime farmland for pension-fund investors, lease the land to selected farmers on a "farm operator" basis and manage it "in the most profitable manner." (See summer 1980 *ruralamerica*.)

There appears to be nothing illegal about this type of venture, but because it would replace the family farmer with a new generation of sharecroppers, several members of Congress have begun to seriously question AAIM's intentions.

The family farms, rural development and special studies subcommittee of the House Agriculture Committee held hearings on AAIM Sept. 22 in Iowa. Several farmers who testified emphasized the need for new laws that would prohibit outside investors from purchasing farmland. On the Senate side, the Small Business Committee has scheduled congressional hearings for Oct. 8.

In addition, both the House Agriculture Committee and William Cotter, former Northern States vice president and now president of AAIM, have agreed to a GAO study of the firm's plans. "We want the GAO study because what we need now is a professional and dispassionate look at the question," Cotter said. "We want to get away from this hysterical atmosphere."

American Agricultural Investment Management Company, Inc.

Cotter apparently has little concern for the future of the traditional family farm. As he put it recently, "It is a mistake to assume that the owner-operator system of agriculture is beneficial to the nation."

Edward Anderson, master of the National Grange, has criticized AAIM's plans, saying, "absentee land ownership will have the same negative effect on American agriculture whether the owner lives in Chicago, New York or the Arab states. We believe firmly in the adage [from Confucius] that the best fertilizer on a farm is the owner's footprints."

Meanwhile, USDA Secretary Bob Bergland has expressed grave reservations about Cotter's plan. "The creation of farm-investment companies raises questions concerning the goals of the American people with respect to the structure of the farming sector. It is not clear how this form of ownership would affect the efficiency of food production. But it would hinder the social goal of individual farm ownership and control that has been fostered since the beginning of this nation," he wrote recently in a letter responding to concerns raised by Rep. Robert W. Kastenmeier (D-Wisc.)

Kastenmeier and other congressional critics of the AAIM venture have introduced the "Family Farm Antitrust Act," which would prohibit any person or corporation with more than $5 million in nonfarm assets from owning farmland. The legislation is pending committee action.

Bergland pointed out in his letter that AAIM would offer pension-fund investors "the opportunity to invest in an asset whose real value (after adjusting for inflation) has increased at an annual rate of 5.5 percent over the last 10 years." In addition, Bergland noted that because income taxes on pension fund contributions and returns are postponed until the funds are disbursed, "those participating in the pension fund (will have) an advantage over family farmers...."

AAIM already has chosen three firms to manage the farms it plans to purchase in the Southeast, the Delta, Texas, Colorado, and California, but few details are available on these "farm management" companies.

Southern Farms and Investment Co. of Tallahassee, Fla., is incorporated in that state, but neither of the other two managers—Blackburn Farms and Gentle Farms in Fresno, Calif.—are incorporated in California.

Gentle Farms came into existence only last July, five months after AAIM was established. Its owner, William R. Gentle, a former Security Pacific National Bank officer in Fresno, plans to manage 320 acres of cotton in the Westlands Water District on land leased from the Southern Pacific Land Co., a subsidiary of the Southern Pacific Transportation Co.

AAIM also reportedly has enlisted as a partner a large West Coast real-estate firm that has a 30 percent equity share in the corporation. Speculation about the identity of the firm centers around property-development subsidiaries of Security Pacific National Bank (the nation's third largest agricultural lender with $346.2 million in assets in 1979), Continental Illinois National Bank and Trust Co. and Nortrust Farm Management, Inc., itself a subsidiary of Northern States Trust Co.

Nortrust manages more than 700,000 acres held in trust in 35 states. In 1979, the Phoenix-based firm "assumed major new assignments in the Southwest and on the West Coast involving conventional seasonal crops as well as permanent crops," according to its annual report.

Continental Illinois was a major force behind the ill-fated "Ag-Land Fund," a similar farm-investment scheme proposed in 1977. Although AAIM is being hit with opposition similar to that levied against Ag-Land, it apparently faces none of the legal tangles that contributed to Ag-Land's demise. Unlike Ag-Land, AAIM is not seeking tax-exempt status because the corporation itself would not own the land. Title would be held by pension funds, which already are tax exempt. AAIM would work only as the funds' purchasing agent and manage the farms in return for a percentage of the land's value.

Although AAIM has yet to buy any land, "you have to keep in mind that there's a long lead time in dealing with pension funds," Cotter told the National Farmers Organization *Reporter*. He estimated it would be well into 1981 before these funds are used to purchase land.

And if it doesn't work out with pension funds?

"There is a huge and enormous market in private investment" for farmland, Cotter said, adding that AAIM would be happy to fill that demand.

‘The Issue Is Not the Nostalgic Family Farm’

**by Marilyn Fedelchak
and George Naylor**

We are sharecroppers on our land. When we harvest our fifth crop this fall, half will go to the landlord. But we are lucky just to be farming. Our landlord is not a firm like American Agricultural Investment Management Corporation (AAIM); our landlord is the older generation of the Naylor family.

George grew up on this farm; his parents built the house we live in when they were first married. George tried to live in urban areas and work at other types of occupations, but his heart was always in farming and that is what he finally came home to.

The Naylors were willing to overlook our inexperience and low net worth. In fact, they provided advice, encouragement, much of our capital at low interest rates and quite a fair lease agreement — they pay for half the seed, fertilizer and herbicide. We are not pushed into risky, capital-intensive joint ventures because the Naylor family's income does not warrant such tax maneuvers.

Would AAIM be willing to gamble on two young people with little or no experience, no capital, no machinery and some crazy ideas? Of course not. It would look to our neighbor, the man who already has excess machinery, proven skills and capital to borrow against when times are hard, as they too often are.

Our tenant-landlord relationship is a family relationship based on human concerns and needs of each other, not the economic concerns based on exploitation of labor and land. With AAIM as landlord, our farming operation would be determined by the interests of investors, based on the advice of Philadelphia lawyers, high-powered computers and manuals on industrial management.

Would AAIM be willing to let us try a 30-acre organic experiment? It did not work for the two of us, but we learned a lot about why and what would be needed to *make* it work. No, we are sure AAIM would expect all of its farmers to be up to date on all of the latest ideas of the corporate agribusiness world and be open and receptive to each of the new chemicals and seeds that they want their farmers to try — at the farmer's risk.

We never have used insecticides on our farm because we watch our crops and know that chemicals have not been needed. If AAIM found rootworm in a field in eastern Iowa, would it decide that farmers all over Iowa had to spray, whether they had rootworms or not?

We are sharecropping, then, from this perspective: it was our ticket into agriculture, but it is a ticket that may not carry enough value to keep us going — even with the best of landlords.

The proposal put forth by AAIM is filled with problems and threats for America's family farm. As we have suggested, AAIM's tenancy is not an access point for entry into agriculture. It is tenancy as a dead-end. AAIM would enjoy tax advantages that would exacerbate the inflation of land prices. A tenant without land equity could never win a game of "catch-up" with land inflation.

Preliminary studies of land-ownership patterns in Iowa reveal that the family-farm ownership system all politicians want to save has passed the halfway point out of existence. In most counties fewer than 40 percent of the acreage is farmed by the owner. This is a trend that must be stopped. AAIM's proposal, however, would ensure the acceleration of this trend. Many Iowa landowners are more than 50 years of age. This means a lot of land will be coming up for sale in the next decade. We see it in our community; everyone we talk to sees it in theirs. When AAIM enters a community and joins the competitive bidding for land, its tax advantages and large pool of capital would close the door to us and thousands of other young people who sincerely want to farm and own the land they farm.

Efforts must be made to ensure that ownership be made available to farmers. The issue is not preserving the nostalgic "family farm" because it embodies hard work and moral values. The issue is ownership of a natural resource by the people who are working the land to produce food and earn a living. The alternative is a system where all natural resources are locked up in the hands of big banks and big corporations.

Every article we read about AAIM talks about how agriculture is under-capitalized; the plan will be a life-saving transfusion of capital into a sagging system. Let us not be fooled into thinking that the solution is outside capital — capital that cannot be held accountable to the community or the people. Rather, let us implement ways to get capital into the hands of those who are working and caring for the land. Farmers must have a return on investment that allows them to compete in our economy, or they will be destroyed.

Farmland is literally the last natural resource in America to be in the hands of those who are working it. We must struggle to keep it that way.

Marilyn Fedelchak, a member of the policy board of the Rural Land Alliance, and George Naylor, her husband, raise grain on their 320-acre Iowa farm.

ruralamerica
A Voice for Small Town and Rural People
VOL. 5, No. 5 SUMMER 1980

Ag-Land Revived Under New Name

by Deborah Bouton

Three former executives of the Northern Trust Co. bank of Chicago have formed a corporation to purchase prime .farmland for pension-fund investors, lease the land to selected farmers on a sharecrop basis and manage it "in the most profitable manner."

The intent of the new company, American Agricultural Investment Management Co., Inc. (AAIM), is similar to that of the controversial and ill-fated "Ag-Land Fund," but different enough so that AAIM can avoid many of the pitfalls that contributed to the earlier venture's decline.

The Ag-Land Fund, proposed in 1977 by Continental Illinois Bank and the brokerage firm of Merrill Lynch, Pierce, Fenner and Smith, was killed before it could get off the ground by a combination of public pressure and legal complications concerning its tax-exempt status. The $50 million pooled farmland trust encountered stiff opposition from Congress and national farm groups that claimed it would increase the concentration of land into fewer hands, drive up land and food prices and revitalize the sharecropper system to the detriment of American agriculture.

Similar charges are being raised against AAIM. So far, however, little organized opposition has emerged because few details of the firm are known. AAIM incorporated in February but was first made public by an article in the April 14 *Pensions and Investments* magazine.

The company plans to buy the best farmland in six regions of the country: the Southeast, the Delta, California, Texas and Colorado, the Northwest and the Midwest.

Although it already is running into opposition from the public, apparently AAIM faces none of the legal tangles encountered by the Ag-Land Fund. For one thing, AAIM is not seeking tax-exempt status, according to President William Cotter, a former vice president with Northern Trust, because unlike Ag-Land, the corporation itself would not own the land. Title would be held by pension funds, which already are tax-exempt; AAIM would work as the funds' purchasing agent and manage the farms in return for a percentage of the land's value.

AAIM does not plan to invest in states that have laws restricting corporate ownership of farmland, even though Cotter said these laws most likely would not apply to his firm because, again, the corporation itself would not own the land. And since AAIM would work with individual pension funds to purchase individual farms rather than set up a pooled trust like Ag-Land, it will have greater leeway with government regulations.

According to Cotter, AAIM will hire regional managers who will seek suitable prime farmland, negotiate with pension funds to purchase the land and select a local "operator" to farm it. Labor, equipment and related costs will be split evenly between AAIM and the operator, and the operator will receive half of the value of the crops raised on the land.

Decisions concerning the farm, such as which crops to grow and fertilizer to use, will be made by the managers on the basis of profit.

Immediate income, he said, will come from marketing crops, but the firm's primary interest is in the appreciation of the land. "We are not land speculators coming in to make a quick profit and get out," Cotter said. "We intend to hold on to the land indefinitely and enhance its value by ensuring that intelligent, long-term decisions are made."

Only if the land turns out to be "bad property" would AAIM sell it "for the best price." But he said the chances of selling out to developers would be remote, since AAIM intends to buy land only in areas where urban sprawl poses little threat.

As farmland has become increasingly scarce in recent years, its price has soared dramatically—roughly 15 percent a year—making it extremely attractive to investors. Last year the rate of return on farmland investments was 5.5 percent after inflation.

The National Farmers Union, which has requested congressional hearings into AAIM, believes the venture could cause further boosts of farmland prices. It also attacks AAIM for "separating landowners from operators, making it more difficult for a beginning farmer to get a foothold and bid for land," according to Milton Hakel, NFU assistant to the president for public affairs. "Creating a new breed of sharecroppers would do little to help agriculture or farmers," he said.

Cotter scoffs at this criticism, which he says comes from "the Jane Fondas of

continued on page 21

In This Issue

Florida Forum Ignites Pesticide Controversy
see page 3

Furor Grows Over Proposed USDA Regs
see page 7

Midland Coal Pulls Out of Knox County
see page 17

. . . Ag-Land Fund Reemerges in Illinois

continued from page 1

agriculture" and "misses the mark entirely." As he sees it, AAIM not only will be a boon to pension funds, but to farming as well.

"The critics have the premise that there should always be something called the family farm," Cotter said. "But the real issue is: does American agriculture need capital? The answer, of course, is yes, and I can think of no better way to support agriculture than with the retirement savings of America."

Cotter added that AAIM provides an excellent opportunity for newcomers to farming who cannot afford to buy the land. "The long-term outlook for American agriculture is extremely bright, and we think the American people should have a right to participate in it," he said. "If the folks at NFU had done their thinking, they would realize that our plan will arrest the decline of farms from farm families by not allowing them to be converted into amusement parks."

Sen. Birch Bayh (D-Ind.) is among those in Congress who do not agree. Bayh's office recently issued a press release condemning the plan and calling for renewed efforts to pass the Family Farm Antitrust Act, which he introduced last year. That bill, now pending in the Senate subcommittee on the Constitution, would prohibit those with more than $15 million in non-farm assets from owning farmland. Bayh also plans to hold hearings on the AAIM venture in the Senate antitrust and monopoly subcommittee, of which he is a member.

"This couldn't come at a worse time as far as the family farmer is concerned," said Joe Allen of Bayh's staff. Because of the economic climate, Allen believes that AAIM poses an even greater threat to farmers than the Ag-Land Fund. "The cost of farm production is soaring, making it attractive for farmers to sell out. What they really need to withstand these pressures is better prices—but there's no way legislation to do that could make it through Congress any time soon," Allen said.

"There appears to be little that can be done to stop this," he said. "Once AAIM breaks the ground and shows how easily this can be done, it will open the floodgates to more of the same. There's a lot of money around just waiting for a good investment."

AAIM has yet to line up any investors, but according to Cotter, "We've already had hundreds of calls from farmers who want us to buy their land and are interested in what we have to offer."

The NFO REPORTER
VOL. XXV; JULY, 1980, CORNING, IOWA NO. 7

Pension funds to buy farms?

There may be a tenant farm in your future

A Chicago financier who reportedly has said "the family farm is a meaningless phrase" has created an investment company that hopes to persuade the nation's $600 billion rich pension funds to buy prime farmlands.

William Cotter, who until recently was a vice president at Chicago's Northern Trust Co., along with two other former executives of the bank, Frank Chauner and Robert Corman, have formed American Agriculture Investment Management Co., Inc.

Unlike the ill-fated Ag-Land Trust scheme of 1977, Trotter said that his company would not actually buy the land. Instead, he said, it would "negotiate the purchase" of the farms for the pension funds and then "manage" them for the funds with a nationwide management network.

The farms themselves would be manned by tenants, a term Cotter told the *NFO Reporter* in an interview, he dislikes. "Farm operator is a better term than tenant," he said.

Already a small squall of criticism surrounds Cotter's proposition. Cotter himself makes no bones about his point of view: "It is a mistake to assume the owner-operator system of agriculture is beneficial to the nation."

The Chicagoan argues that his plan would free farmers of

(Continued on page 9)

Pension funds

(Contined from page 1)

much of their capital problems since they would no longer need to own their farms. "There is no argument that more credit is needed," he contended.

Although he said they've "yet to buy a single acre," Cotter claims "I would have to say there has been some interest" by the pension groups. Still, he refuses to be pinned down to a specific timetable on when his group will begin to roll. "You have to keep in mind that there's a long lead time in dealing with pension funds," he said. He did say that it will be well into 1981 before the pension funds may act.

And if they don't?

"There is a huge and enormous market in private investment" for farmland, Cotter said. He added his firm will be happy to fill that demand.

The only area of the country Cotter has ruled out is the Northwest. Earlier, a list of their target states had been published...a list Cotter now contends was erroneous. For instance, Cotter once told a reporter from the *Kansas City Times* that he already had an agent in Des Moines.

The Iowa attorney general's office advised him that state law prohibited trust ownership of farmland. Cotter later told the *NFO Reporter* he never had any intention of operating in Iowa.

The difference between Cotter's proposal and the Ag-Land Trust plan is that Cotter's company wouldn't own the land. In 1977, the Continental Illinois National Bank and Merrill Lynch, Pierce, Fenner and Smith proposed actual purchases of farmland for investors in $50 million parcels.

That proposal was defeated because it sought non-profit status from the Internal Revenue Service and as a result of Congressional scrutiny prompted by farm and rural ire. Cotter's scheme is expected to undergo similar scrutiny, although well informed observers doubt if his firm has sufficient financial backing.

American Agricultural Investment Management Company Inc.

WILLIAM S. P. COTTER
president

2211 A Lakeside Drive
Bannockburn, IL 60015
(312) 295-6880

American Agricultural Investment Management Company, Inc.

FARMLAND AS AN INSTITUTIONAL INVESTMENT

by Wm. S. P. Cotter

An address to The Investment Technology Association

Boston - April, 1980

The case we are going to make today is not merely that American farmland would be a logical addition to any institutional real estate portfolio, but further that because farmland is such a huge proportion of total real estate, and agriculture so important to our economy, no portfolio would be truly diversified without a significant participation in our farm economy.

The prestigious British business journal, "The Economist", recently published a major survey of American agriculture. It began with the statement "Farming is America's biggest business, with a workforce as large as that of the steel, car and transport industries put together. It is also the most successful. Agricultural exports are double imports. Labour productivity has increased tenfold in the past 50 years.. Our American business editor examines how the American farmer became the world champion and how he can retain that title."

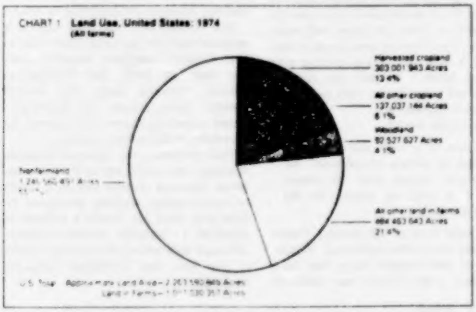


Chart 1

Chart 1 shows the uses of land in the U.S. Of the total of 2¼ billion acres, farmland accounts for 1 billion, 17 million acres, or 45% of all the land in America.

Agriculture is indeed our most important industry. We are the world's largest exporter of foodstuffs, and account for over 60% of all feed grains entering the export market. In

1979 we exported $33 billion of farm products. The export surplus of $16 billion was our strongest prop for the dollar, and did much to offset the inflation inducing effects of our huge oil imports.

To put the case succinctly, if one sets out to invest institutional funds in real estate and ignores farmland, it would be analogous to investing in the stock market, but stipulating that only companies whose names began with the letter A through L could be purchased.

Ibbotson & Fall, published a paper in the Fall 1979 issue of the Journal of Portfolio Management which studied the rates of returns of stocks, government, corporate, and municipal bonds, and real estate, since WW II. They stated that the "overall winner, was the farm component of real estate, with an annual compound return of 11.69%. Farms were also a series that... had relatively little variation in return. These should be magic words to a pension plan sponsor, since farms are not only an investment that can reduce the volatility of an overall portfolio, but can do so while at least holding its own on a rate of return basis. It should also be pointed out that this study covered all farms, including those of poor quality. If only prime properties were considered the compound rate would be substantially higher.

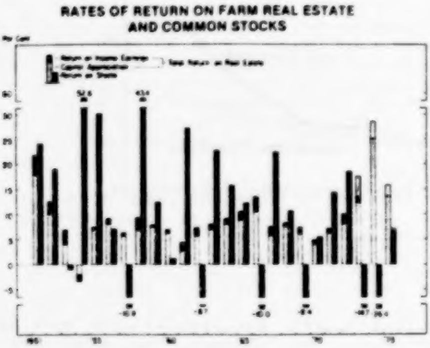


Chart 2

Chart 2 shows the variations in return since 1950 of stocks and farmland. As can be seen, capital appreciation has been the most important component of total farm return. We can also see the Ibbotson/Fall study's demonstration that the variability of stock returns were 2½ greater than that of farms.

FARMLAND COMPARED WITH STOCKS

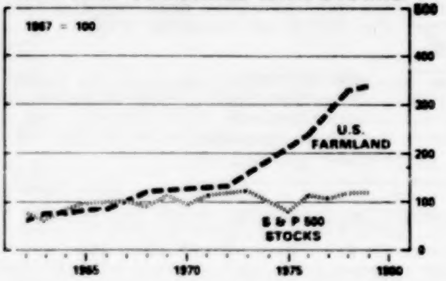


Chart 3

Chart 3 shows the comparative returns of farms and stocks for the last twenty (20) years.

FARMLAND AS A HEDGE AGAINST INFLATION

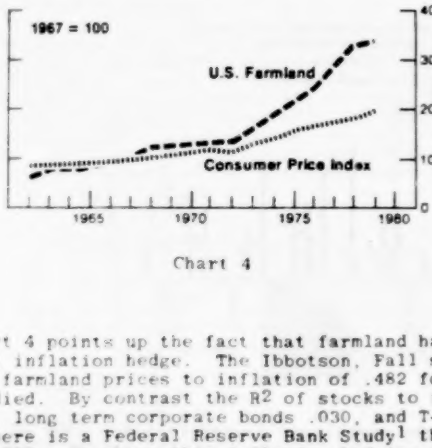
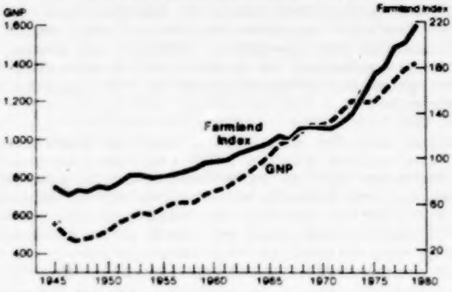


Chart 4

Chart 4 points up the fact that farmland has been an excellent inflation hedge. The Ibbotson, Fall study gave an R^2 of farmland prices to inflation of .482 for the period studied. By contrast the R^2 of stocks to inflation was .194, long term corporate bonds .030, and T-bills .421. There is a Federal Reserve Bank Study[1] that reaches back to 1925. It shows this inflation hedging ability has been evident for more than a half century. The correlation coefficient, or fit to inflation of that study was .37. A case could be made that as inflation becomes more virulent, farmland becomes an even better inflation-discounter.

---

[1] Marvin Duncan, "Farm Real Estate Values: What's Happening and Why," Federal Reserve Bank of Kansas City, June 1979), p.16


FARMLAND VALUES COMPARED WITH GNP

(Deflated to 1972 Dollars)

Chart 5

Chart 5 displays the relationship between farmland prices and the Gross National Product. Farms have been an excellent means of participating in the growth of the economy, and in the last decade the growth rate of farm prices significantly surpassed the growth of the remainder of our economy. The shaded areas represent recessions since WW II. The trend line indicates that farmland has been virtually recession proof over our recent history.

Farm real estate has characteristics that make it unique. The supply is immutable, as the old saw goes, "nobody's making any more". The supply is fixed, while the demand is growing. People must eat. The supply of other forms of real estate is not fixed. From time to time, in any area, there are too many hotel rooms, apartments, offices, warehouses, industrial plants, or whatever for the demand. Buildings must deteriorate, good farmland need not. Neighborhoods change, as in Newark or Detroit, and tremendous value is lost because the surroundings change.

To the contrary, expanding urbanization or industrialization enhance farmland values as farms are converted to more intensive uses.

If one is to understand the arguments for the continuing prosperity of American agriculture and the growth of land values, it is necessary to place them in the context of the history of farming in this country.

America has been a net exporter of agricultural products for most of our history. Indeed the first export, of tobacco, was recorded in 1613. For the next two centuries, we carried on a brisk trade, primarily with England, of tobacco, indigo, cotton and wheat in exchange for manufactured goods. This trade suffered from our Revolution, and declined sharply after the War of 1812. U.S. food exports revived in the 1840's as the result of famine and shortages in Europe, and the Crimean War. In 1846 England repealed the Corn Laws, which had placed strict duties and quotas on imports of grain, setting the stage for a system of international free trade that was to bring great prosperity to America in the last half of the 19th century.

But King Cotton was the dominant export of that century. The invention of the cotton gin in 1793 and the incredible productivity of Southern cotton farms created the possibility, for the first time in the history of the world, of abundant, inexpensive cloth. Cotton created the need and the financing for the industrial revolution, and so was a primary cause of the exuberant growth of the nation in the last century. In the North, industries and services, banking, insurance, transportation and manufacturing, arose to support the cotton trade. An expanding population spurred the movement westward, through the Old Northwest-Ohio, Indiana, Illinois, Michigan and Wisconsin- to provide food for the South and North. Foreign capital, primarily British, flooded into America, to build railroads and support the growing commerce.

By 1860, the value of cotton exports was nine times greater than in 1820. The value of wheat and tobacco exports quadrupled at the same time. In those years the value of all exports increased six times and by 1860 food and fibers were three quarters of total exports. It was in these decades that our nation was established as a world financial and trading power, and agriculture was the cause and backbone of that power.

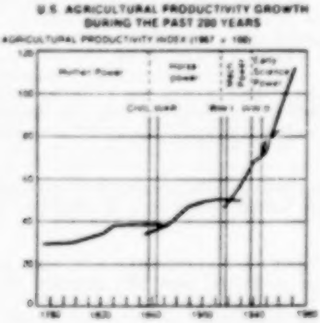


Chart 6

It is amazing that this growth in agriculture was accomplished largely with just human power, as Chart 6 shows. While the productivity growth trend in agriculture has generally been accelerating since about the time of the Civil War, the major impetus for such growth has changed from time to time. After the introduction of new technology, productivity increases tend to be quite rapid followed by a slowing in the growth rate after widespread adoption. So, new technology or innovation is required from time to time to spur productivity growth. Chart 6 illustrates total agricultural productivity growth during the past 200 years, which may be divided into four periods according to major sources of productivity increases: 1776 to the Civil War - human power, the Civil War to World War I - horsepower, World War I to World War II - mechanical energy, and World War II to the present - early science power.

Until the Civil War, productivity changes were principally related to making human labor more productive. A number of innovations occurred, such as the cotton gin, cast iron plows and mechanical reapers, but there were no major technological breakthroughs. As a result, productivity grew rather slowly, leveling off about 1830 with little further growth until the Civil War.

Manpower shortages and high food prices, induced by the war, stimulated widespread adoption of horsepower machinery after 1860. Though much of the machinery had been invented earlier, the war resulted in economic conditions conducive to adoption of the new technology. Horsedrawn reapers, grain drills, corn shellers and cultivators came into general use between the Civil War and the turn of the century. During the same period, public policy actively supported the generation of new farming knowledge and its distribution to farmers. The U.S. Department of Agriculture was established in 1862, along with Land Grant colleges in each State. The Hatch Act of 1887 established experimental stations in each state to develop new knowledge and technology, and the Smith Lever Act of 1914 formed the Cooperative Extension Service to disseminate that knowledge and technology to farmers.

Agricultural commodities continued to be a large share of total U.S. exports following the end of the Civil War. From 1869 until the early 1890's, agricultural exports were relatively stable at 75 to 80 per cent of total exports. Beginning with the early 1890's, however, the agricultural share of exports decreased continuously to under 65% at the turn of the century, and finally fell below 50% just before WW I.

The onset of that war set the stage for the disaster that later fell on American Agriculture.

War-fed demand created a great need for American farm products. Exports of foodstuffs soared and farmland prices went along. Non-combatant nations, chiefly in Asia and Africa, increased their food production and exports. When the war ended, there was enormous oversupply of agricultural products in world markets and new, lower cost producers as well. Food prices tumbled. The U.S. and European governments, hoping to protect their farmers, erected tariff and quota barriers to imports. This effectively destroyed world commerce and eliminated the economic balancing value of imports and exports. Many economists, Milton Friedman among them, believe this was a major cause of the Depression, and certainly prolonged that cataclysm.

The contribution of agricultural exports to total U.S. exports which had declined to about 50% by 1910 fluctuated around that figure for the next decade and began to fall again after 1920 until it was well under 40% by 1937. The temporary turnaround in the WW I decade followed by an inter-war decline, also is represented in the data on the contribution of exports to total gross farm income. The share of exports rose from 1909 through 1919 and, in the latter year, almost equaled the post-Civil War peak of 1979. From an annual average of nearly 15% for the 5 years 1909 through 1913, the export share of total gross farm income rose to nearly 18% in the periods 1914 through 1918 and 1919 through 1923, then declined steadily, reaching only 8% in the 4 years 1934 through 1937.

This history is critical to the understanding of the only extended and serious non-war decline in the value of farmland. Chart 7 shows that decline after WW I, in which the speculative run-up of 1919 and 1920 was paid for in 1921 and 1922.

FARM REAL ESTATE VALUES

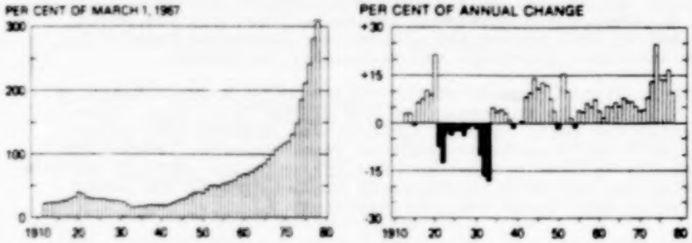


Chart 7

The fundamental bases of that decline is instructive in predicting what will happen after the strong increase in farm values during the decade of the 1970's.

That 15 year decline in farmland prices was caused by a sharp decrease in farm income brought on in turn by a collapse of exports and slow or virtually no population growth.

In the last 47 years, there have been slight declines, between 2 and 3%, in only three (3) years, 1938, 1949 and 1953. All three were related to declines in farm income brought about by concommitant declines in the general economy. There has not been a single year of decline in farmland prices in the last 27 years, despite three recessions and a prolonged war. There is widespread belief among agricultural economists that this is due to ever-growing total farm income, supported by new technology and expanding exports. While this is the major reason, there are others.

There have been numerous econometric models constructed to explain farm real estate values. Various approaches have been used.

Tweeten & Nelson[2] explained 95% of the changes in land prices in the 1923-1963 period using a multi-equation model that presumed land price was a function of land in farms, farm transfers, the number of farms, last year's land price. They concluded that the most important source of increase of land values was farm enlargement pressures.

A study by Herdt & Cochrane[3] indicated that technology, the ratio of prices received, and the general price level were primary determinators of farmland and prices.

Robert Reinsel,[4] in another study, concluded that inflationary and population pressures were the dominant factors.

A model constructed last year by the Federal Reserve Bank of Kansas City[5] found the most important determinants to be farm enlargement pressures, expected net farm income, expected personal income of farmers from non-farm sources, and becoming statistically highly significant in recent years - expected capital gains.

---

[2] Luther G. Tweeten and Ted R. Nelson, Sources of Repercussions of Changing U.S. Farm Real Estate Values (Technical Bulletin T-120, Oklahoma State University, April 1966).

[3] Robert W. Herdt and Willard W. Cochrane, "Farm Land Prices and Farm Technological Advance," Journal of Farm Economics (May 1966), pp. 243-63

[4] Robert D. Reinsel, "The Aggregate Real Estate Market", (Michigan State University, 1973), pp. 107-36

[5] Op. Cit., pp. 21-25

Let us examine some of these variables.

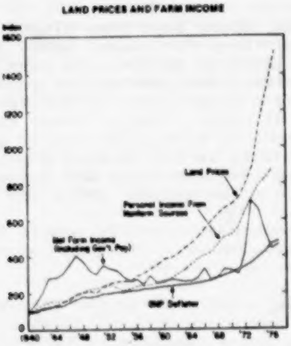


Chart 8

Chart 8 indicates the movement of indexes of farm real estate values and the price deflator for GNP during the 1940-1976 period. With the exception of the war years, with pegged prices, the farm real estate index has been above the GNP deflator index and since 1955 has risen at an increasingly faster rate. Indeed, since 1925 farm real estate price changes have generally moved in the same direction as the GNP deflator. It is obvious that farm ownership has been a powerful hedge against inflation.

Land value, ultimately, is determined by the value of what is produced on the land or by the value of alternative uses - mineral deposits, urban development, recreation and so forth. Farm values maintained a stable relationship to net farm income from the mid-30's to the mid-50's. Since then farm values have increased at a rate greater than increases in net farm income, except in 1971-73 when rapid increases in income matched land increases. Part of the answer can be seen in Chart 8. Personal income from non-farm sources has grown at a rate comparable to land values. Personal income has enabled many farmers, especially new entrants, to meet cash flow requirements of farm ownership. This also suggests that capital appreciation may be a more powerful attraction to many farm owners than current farm income.

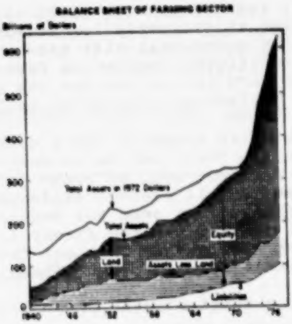


Chart 9

Chart 9 shows that the total assets of the farmer have grown at a faster rate than farm land values, and the farmer's equity has also grown faster. It seems the American farmer also knows the value of leverage in an inflationary economy.

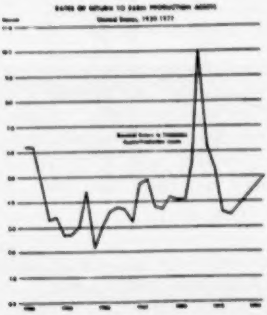


Chart 10

Chart 10 makes another point. For 30 years the returns on production assets to a farmer have been in a strong upward trend. These two charts show that the farmer's balance sheet and basic financial ratios are in very healthy condition, and have helped support the strong increase in farmland prices of the last three (3) decades.

A word must be said about the role of government in the increase in farmland prices.

Since the mid-1930's goverment has from time to time stepped in to support farm income. In 1935 and again in the late 60's and early 70's this support reached as much as 7% of income. Since 1973, this has been at extremely low levels. But there can be no doubt the government will act quickly if there is evidence of significant decline in farm income. This moving floor under farm prices has had the effect of protecting or propping up farmland prices as well.

There is another similar argument for a cushioning effect on farmland prices. There can be no decline in farmland prices if farmers will not sell at lower prices. If net farm income declines, as all present evidence suggests could happen in 1980, land prices need not decline commensurately, or perhaps at all. Since the farmer is playing a capital gains game, he will simply wait out the period of income decline and await more favorable times.

Let us return to our chart showing productivity increases in agriculture.

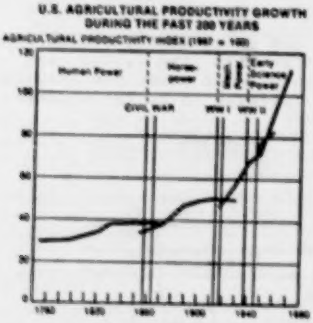


Chart 11

That sharp increase since 1950 has been fueled primarily by technological advances - Notably hybrid seed, chemical fertilizers, pesticides, herbicides; and scientific land management. But the greatest part of that growth is the result of a movement to more powerful machinery and larger single farms. Since the mid-1930's the number of farms has declined from 6.8 million to 2.7 million. In 1950 there were 5.6 million farms in the U.S. with an average size of 214 acres; in 1960, 4 million farms with average size of 297 acres; in 1970, 2.9 million farms with an average size of 374 acres; in 1978, 2.7 million farms with an average size of 400 acres. And the end is not in sight. We are at the outset of this technological revolution. We can gain perspective if we realize that it was not until 1955 that tractors finally outnumbered draught horses and mules on American farms.

Since 1950 productivity per manhour has increased 5.8% annually for agriculture vs. 1.9% for all other industry. Chart 12 graphically shows the quadrupling productivity of American Farms in the last half century.

AGRICULTURAL PRODUCTIVITY, 1930-1977

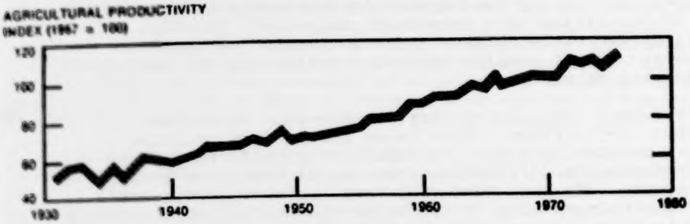


Chart 12

Farm consolidation will continue. Chart 13 displays who are the purchasers of American farmland.

FARM REAL ESTATE TRANSFERS BY TYPE OF BUYER

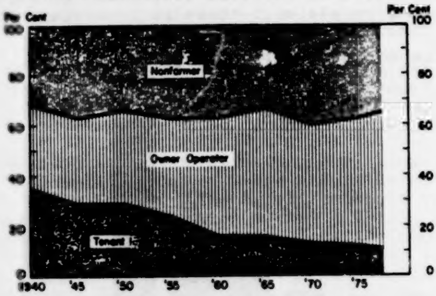


Chart 13

For 40 years, constantly, two-thirds of all properties have been bought by expansion farmers. The greatest threat to the family farm is not some corporation, but that voracious family farmer next door who realizes the increases in productivity he can obtain if he can spread his labor and equipment over more acres.

Bio-Chemistry will give us our next technological boost. Research is far along on uses for pest control. The most exciting application will be in genetic alteration of existing crops. Through use of recombinant DNA, seed strains can be developed that have various desirable characteristics. For example, there are large areas of our nation where naturally occurring moisture is not sufficient to grow certain high cash crops.

If we could develop, for example, a variety of corn that grew well in dry land areas, it would open up vast areas of our nation to a very important crop. This is especially desirable because there are areas now where the energy costs of pumping water for irrigation are making crop growing marginal.

In former years, hybridization was used to evolve desirable crop strains. This takes generations of crops and long periods of time. In addition, hybrids frequently have unwanted characteristics that are difficult or impossible to eliminate. We grow wonderful tomatoes that grow quickly, mature at the same time for efficient harvesting and are hardy enough to withstand mechanical picking. We've managed to create tomatoes with the consistency and taste of hand grenades. Through recombinant DNA we can rapidly evolve new strains while eliminating undesirable characteristics.

While examining these variables it is important to understanding what can happen if one invests in farmland. We must not forget that the ultimate tool for evaluation is supply and demand. How many people will there be to consume the crops we can produce. Chart 14 is interesting.

GROWTH OF WORLD POPULATION

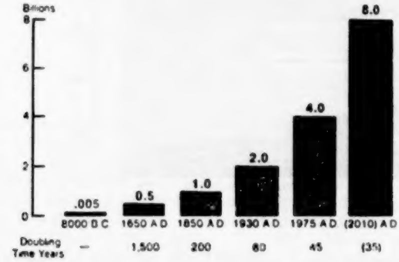


Chart 14

It shows that world population is growing more rapidly than ever before and will almost double by the end of this century. On the supply side the situation is worse than static. In the last decade, 2½ acres of farmland have been lost for each new acre brought into production. We are losing 1 million acres of farmland a year to alternate uses.

There is another dynamic operating in the equation which is even more dramatic.

As countries develop, the diet of their population improves. This would seem to be axiomatic. But it improves not only in adequacy, but also in quality. Citizens of underdeveloped countries consume grain on almost a one to one basis. They consume crops in a primary state and are at the bottom of the food ladder. Their diet, therefore, is very heavily weighted to starches. Many of use have travelled to countries I've described. Think of tacos and other food staples. In the Caribbean there are a number of populations whose protein diet is either fish or meat of animals that subsist on forage, and do not compete for human food - for an example, goats.

The next step up the food ladder is to poultry. Generally, two pounds of feed grain are required to add one pound to a chicken. The next step is to pigs which require five (5) pounds of grain per pound of weight gain, and on to beef cattle that gain but one pound for every seven (7) of grain consumed. As nations enter their developing state, they move relentlessly up this ladder.

Developed nations are at the top of the ladder and tend to stay there. Eating habits are not price inelastic, but people resist giving up foods for which they have acquired a taste. Americans consume only slightly less beef than they did before raging inflation pushed beef prices into the luxury category.

Many nations become net importers of food not because their output declines, but because they became developed nations with appetites for more expensive protein. South Korea and Taiwan are excellent examples.

U.S. food exports to under-developed nations are small, and to developed nations huge. These export markets will grow only gradually for us. The bright prospect is for the rapidly growing developing-nation market. China, India, Indonesia, and Nigeria account for one half of the population of the world - and they have just begun to increase their demand for American food and fibres. In a few years, China has gone from importing no U.S. cotton to taking 20% of our total crop.

There is the case for investing in American farmland. The World must be fed - and only America has the resources necessary to that task. We uniquely have the combination of abundant, available land, climate, technology, productivity, and skilled farmers to produce what must be produced. And as we produce and export, the value of American farmland will reflect the prosperity of our farm economy.

RICHARD NOLAN, MINN.
CHAIRMAN
DANIEL K. AKAKA, HAWAII
TOM HARKIN, IOWA
TOM DASCHLE, S. DAK.
BERYL ANTHONY, JR., ARK.
FREDERICK W. RICHMOND, N.Y.
BERKLEY BEDELL, IOWA
LEON E. PANETTA, CALIF.

THOMAS S. FOLEY, WASH.,
EX OFFICIO MEMBER

JAMES W. SWIDERSKI,
SUBCOMMITTEE STAFF DIRECTOR

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Family Farms,
Rural Development, and Special Studies
Room 1301, Longworth House Office Building
Washington, D.C. 20515

CHARLES E. GRASSLEY, IOWA,
RANKING MINORITY MEMBER
KEITH G. SEBELIUS, KANS.
E. THOMAS COLEMAN, MO.
WILLIAM M. THOMAS, CALIF.

WILLIAM C. WAMPLER, VA.,
EX OFFICIO MEMBER

ROBERT M. BOR,
CHIEF COUNSEL
JOHN E. HOGAN,
COUNSEL

July 16, 1980

The Honorable Elmer Staats
Comptroller General
U.S. General Accounting Office
441 G Street NW
Washington, D.C. 20548

Dear Mr. Staats:

The newly formed American Agricultural Investment Management Company recently announced its intention to seek investment opportunities for pension funds in United States farmland. The investment company is apparently looking for typical size farms in areas of the United States favored by the best growing conditions. The farm properties evidently will be rented to operators and managed by farm management companies. Pension funds, by law, are required to diversify their holdings and, according to the investment company, farmland is a more secure long-term investment than the erratic bond and stock markets.

Strong opposition to the pension investment plan has been expressed by some in the agricultural community. The underlying concern is the issue of farm ownership, and the fear that the effect of the pension investment plan will be to separate ownership of land from the profession of farming, thus undermining the family farm system of agriculture in the United States.

The concerns raised by the pension investment plan have stimulated a debate which is likely to grow more heated. In view of your office's overall familiarity with these issues, acquired in preparation of your report entitled, Changing Character and Structure of American Agriculture: An Overview, we request that you evaluate the impact which the pension investment plan is likely to have on the family farm structure of agriculture in the United States.

Thank you for your assistance.

Sincerely,

pages tightly bound

PURPOSE OF THE GENERAL ACCOUNTING OFFICE STUDY: To evaluate the background and potential impact of the American Agricultural Investment Management Company's (AAIM) pension investment plan on the family farm structure of agriculture in the United States.

I. Is United States agricultural land an attractive investment for non-farm capital? Is U.S. agricultural lacking in capital? Why?

1. What are the current sources of information on non-farm capital investment in agriculture? What do they indicate as to the extent of such investment? Are these sources generally viewed as accurate, reliable indicators?

2. What attractions and advantages would there be in agricultural land for a pension fund? Are any pension funds or similar investment funds investing in agricultural land now or in the past? Are there any reasons why agricultural land would be better for a pension fund than other more traditional investments?

3. Are there any tax advantages to pension funds investing in agricultural land that would not be available to farmer/owners or other owners of farmland?

4. Does the federal government require diversification of pension fund investments? If so, under what authorities? Would such requirements stimulate or encourage investment of such funds in agricultural land?

5. Some states restrict absentee ownership of agricultural land. Do any states restrict pension fund investment in farmland or investment or ownership of farmland by similar funds?

II. Structure and plans of the American Agricultural Investment Management Company. What is AAIM's proposed business?

1. What are AAIM's sources of capital?

2. What individuals and firms are involved?

3. What legal and registration requirements must AAIM comply with at the federal and state levels before it can conduct its proposed business?

4. What information is available from the public record as to the plans and proposals of AAIM?

5. Has AAIM actually begun operation of its pension fund investment plan? What is that plan, and what indications do you have as to its feasibility?

III. Immediate and long-range Impact of pension fund investment in agricultural land.

1. What is the scope of potential pension fund investment; that is, how much total capital is available in pension funds for investment in agricultural land or anything else?
2. What impact might there be on the price of farmland if such a large source of capital were focused on purchase of agricultural land?
3. What effects might this have on existing family farmers, and especially on new entry into farming?
4. Does your analysis indicate that pension fund investment in farmland might have adverse effects on family farms in the United States over the short or long term, or threaten the family farm system in any way.
5. Does your analysis indicate that pension fund investment in U.S. agricultural land is likely to be substantial in the future?

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

Honorable Robert W. Kastenmeier
House of Representatives
Washington, D. C. 20515

August 6 1980

Dear Congressman Kastenmeier:

You asked that we note the formation of American Agricultural Investment Management Company, Inc. (AAIM), and asked that we respond to the allegations of Communicating For Agriculture, Inc., in their June letter to you.

We have discussed the organization, finance, and objectives of AAIM with several sources, including an officer of the company. According to the April 14 issue of Pensions and Investments (Crane Business Publications, Chicago, Illinois), the firm's name and address are: American Agricultural Investment Management Company, Inc., 2211 A Lakeside Drive, Bannockburn, Illinois 60015. It was incorporated in February of this year. The President and founder is William S. P. Cotter; Frank Chauner is Vice President and Secretary. Pensions and Investments reports that there is an equity partner not yet identified -- a large west coast real estate development firm that has a 30 percent equity share in AAIM.

The firm will serve as investment manager for individual investors, pension funds and others interested in purchasing farmland. It is currently soliciting investment funds but to this date (June 20) has not obtained any. The firm will locate farms to be purchased and negotiate with existing farm management firms for its investors. According to Pensions and Investments, the farms will be purchased in six regions: the Southeast, the Delta, Texas and Colorado, California, the Northwest, and the Midwest including Iowa, Illinois and Indiana. Pensions and Investments also explains that three firms have already been chosen to manage farms for AAIM. They are: Southern Farms and Investment Company of Tallahassee, Florida; and Gentle Farms and Blackburn Farms of Fresno, California. AAIM will purchase land in geographically dispersed regions of the country and produce a variety of farm commodities to lower the risk to its investors.

Merrill-Lynch and the Continental Illinois Bank and Trust Company attempted to form a similar farmland investment firm in 1976. This new firm (AAIM) differs from the Merrill-Lynch/Continental firm in that the investment funds will not be pooled. Instead, each individual or pension fund will invest a minimum of $5 to $10 million, to directly purchase at least 5 to 7 farms. The farm management firms hired by AAIM will either operate the farms or rent them. In the latter case the renting farmer will provide his own equipment and labor and will pay a rent of 1/2 of his output.

Investment firms of this type will provide obvious advantages to the individuals who contribute to participating pension funds. The purchase of farmland offers the pension funds an opportunity to broaden their portfolios and reduce risk, and it offers individuals the opportunity to invest in an asset whose real value (after adjusting for inflation) has increased at an average annual rate of 5.5 percent over the last 10 years.

Income taxes on both the contributions into pension funds and the returns that they earn are postponed until disbursement of the funds. These tax advantages will provide those participating in the pension fund with an advantage over family farmers who do not receive similar tax breaks when they invest in farmland to enlarge their farms.

The additional demand for farmland would raise the price of farmland. On a national scale the effects would not appear to be significant but farmland markets are very segmented and locally the price increases could be significant.

To the extent that farmland prices increase it would become more difficult for young people to enter and succeed in farming. The average farm in the U.S. now has a value of $290,000 and the continuing trend toward farm enlargement might be accelerated by additional farmland price increases. In addition, the managers of the farm investment firms would probably screen their potential tenants more closely than other landlords. This screening would create a stronger tendency to favor the well-equipped, proven farm operator.

The creation of farm investment companies raises questions concerning the goals of the American people with respect to the structure of the farming sector. It is not clear how this form of ownership would affect the efficiency of food production. But it would hinder the social goal of individual farm ownership and control that has been fostered since the beginning of this nation.

Sincerely,

Bob Bergland

Department of Justice

THOMAS J. MILLER
ATTORNEY GENERAL

ADDRESS REPLY TO
HOOVER BUILDING
DES MOINES, IOWA 50319

May 22, 1980

Mr. William Cotter
American Agricultural Investment
 Management Co., Inc.
2211A Lakeside Drive
Bannockburn, Illinois 60015

Re: Chapter 172C, Iowa Code 1979

Dear Mr. Cotter:

The May 2, 1980, Washington Newsletter of the National Farmer's Union contained a report that your company is developing a plan to invest non-profit pension funds in farm real estate. It is my understanding that this information came from an article in the April 14, 1980, issue of Pension and Investment Magazine.

Pursuant to § 172C.4, The Code 1979, it is the duty of the Attorney General of Iowa to enforce Chapter 172C, The Code 1979, which limits corporate and trust ownership of Iowa agricultural land. The purpose of this Act is to preserve owner-operated family farms as the basic farming entity in Iowa. A copy of Chapter 172C, The Code 1979, as amended by the 1979 and 1980 sessions of the legislature, is attached for your information.

If, as the articles indicate, you are contemplating purchase of agricultural land in Iowa, you should be aware of particular provisions of Chapter 172C. Section four (4) of the Act provides that:

> No corporation or trust, other than a family farm corporation, authorized farm corporation, family trust, authorized trust or testamentary trust shall, either directly or indirectly, acquire or otherwise obtain or lease any agricultural land in this state.

The only exceptions to this for a trust are at §§ 172C.4(7) for fiduciaries, 172C.4(10) for land held prior to July 1, 1977, and 172C.4(11) for land acquired by a trust for immediate use in nonfarming purposes. It is doubtful that your proposal, as described, would fit any of these exceptions.

Nor is it likely that it fits any of the exceptions in the paragraph of § 172C.4 quoted above. For example, an "authorized trust" means a trust (other than a family trust) which has fewer than twenty-five beneficiaries, all of whom must be natural persons acting on their own behalf. Further, the income of the authorized trust may not be exempt from taxation. A trust in which the beneficiaries are non-profit pension funds would not meet these criteria.

The provisions of Ch. 172C, The Code 1979, relating to trusts were adopted by the legislature as a response to the "Ag-Land Trust" proposal of the Continental Illinois National Bank and Trust Company and Merrill Lynch. It is the clear intention of the legislature that large-scale corporate and trust investment in farm real estate not be allowed in Iowa, to the detriment of the family farm.

My office intends to aggresively enforce these limitations. I would point out that § 172C.4(12) provides for fines up to $50,000.00 for violation of § 172C.4 and provides for divestment of land acquired in violation of the section. Injunctive relief is also provided for.

Your proposal may differ in some significant way from the "Ag-Land Trust" proposal so that it does not run afoul of Chapter 172C, The Code 1979. Even so, I believe it is in your best interest to be fully informed concerning the Iowa law.

Sincerely,

J. Miller

THOMAS J. MILLER
Attorney General of Iowa

TJM/nay

Monitoring the activities of Agribusiness

Editor/Publisher
A. V. Krebs

The AgBiz "Tiller"

Issue Number 5 **$1.00**

New farm phenomenon: The giant land funds

Special Report

"The best fertilizer is the footsteps of the landowner," Confucius used to say about farming. Unfortunately, today it is the slick soles of corporate America that are trodding on our farmlands. Thousands of independent family farmers and rural merchants each month are forced to leave the land. Large corporate agribusiness, meanwhile, claims that only the private sector has the enormous capital required for agriculture in the next 20 years and it seeks new ways to control farmland. These days nobody goes into the valleys of California, the Midwest corn and wheat belts, the orchards of Florida or the dairy farms of the East to find agricultural power. They look to the financial districts of the cities, especially Montgomery Street in San Francisco, South La Salle Street in Chicago and Wall Street in New York. From these financial citadels two of the most ambitious ag land schemes — one in the Midwest, the other in California — recently emerged.

Endangered species of farmer

Through the years, the typical farming venture has had four essential components — land, labor, capital and management. Among these four elements, the most treasured of all to the farmer is entrepreneurship, which is encouraged and fostered by the important role leasing plays in farming today. Historically, the emphasis has been on ownership, while leaseholders have sometimes been regarded as second-class farmers. More recently, farmers have come to think of themselves as farm operators and managers.

In fact, land ownership in and of itself is less important than the profit of his overall operation.

If this country is going to try to hold to the earlier mode in which ownership is revered above entrepreneurship, then the family farm as we know it is indeed an endangered species and it is going to become even more so in future years . . .

—Charles R. Hall, executive vice-president, Continental Illinois, at the House Agriculture Subcommittee hearing.

Continental Illinois National Bank and Trust of Chicago, ranked seventh in the nation with assets of $15 billion, late last year tried to establish a closed-end trust of $50 million — called Ag-Land Fund I — to "invest in U.S. agricultural land primarily for appreciation and secondarily for current cash return . . ." Such a fund could buy approximately 25,000 acres.

After a fierce two-month fight by farm, labor, consumer and public interest groups in D.C., three days of hearings in February by Rep. Richard Nolan's **House Agriculture Subcommittee on Family Farms, Rural Development and Special Studies**, and pressure from Secretary of Agriculture Bob Bergland and the White House, Continental Illinois was forced to withdraw its plan.

Originally set up by the bank and to be marketed by **Merrill Lynch, Pierce, Fenner and Smith**, the country's largest stock brokerage firm, Ag-Land Fund I was designed to purchase farms in the Midwest, mid-South and on irrigated Western lands.

Merrill Lynch would have marketed the fund to tax-exempt employee pension and profit sharing funds. Ag-Land Fund I had been routinely OKed by the Comptroller of the Currency as well as the **Securities and Exchange Commission**. Its only remaining hurdle was a final IRS ruling on the fund's tax-exempt status.

Continental Illinois was to have served as the trustee and would have been responsible for purchasing and managing the farms. It was planning to buy only working family farms of approximately 640 acres of prime farm land. The land would then be leased back to farmers on a cash-rent to share-crop basis.

Seed, fertilizer, machinery and such for the farms would be furnished by Ag-Land Fund I. Meanwhile, a group of six California agribusiness and financial investment executives were quietly filing the necessary papers with the state **Department of Corporations** office in San Francisco to establish **Western Farmlands Ltd.**, a $50 million limited agricultural partnership.

Western Farmlands Ltd., with its co-general partners — **Western Farmlands Inc.** and **Western Farmlands Management Co.** — is seeking to acquire agriculture real property, primarily in California. They will pay cash and lease the land back to farmers for a percentage of the crop.

Hell of a statement

The essence of this whole business lies in Mr. Hall's earlier statement, 'If ownership is to be revered above entrepreneurship, then the family farm is indeed an endangered species.' That's a hell of a statement for a bank vice president to make. Since this country was founded, I thought our nation was behind private ownership of land, not 'entrepreneurship.' You're not interested in preserving the family farm. You're interested in making money.

—Rep. Leon Panetta (Dem.-Calif.), member of House Agriculture Subcommittee on Family Farms and Rural Development, at the hearing.

Western Farmlands' *Prospectus*, similar to Ag-Land Fund I's intent, lists investment objectives: "To realize capital gains on any appreciation in the properties, and to guarantee sufficient cash flow to render cash distribution at least twice a year."

Initially uncovered by Fresno-based **National Land for People**, as part of their ongoing study of surrounding land ownership patterns in California's San Joaquin Valley, Western Farmlands Ltd. appears to be the creation of Malcolm MacNaughton Jr., vice-president and western manager of **Dillon, Read** a large western stockbroker, and Peter Schneider, who until early this year was project land manager for **Southern Pacific Co.**, among the nation's largest transportation companies.

Other members of this new limited partnership's board include: Arthur Gilmore, an associatiate in **Brobeck, Phleger Harrison**, a large S.F. corporate law firm; James Finch, former executive vice-president of farm operations for **Newhall Land and Farming Co.**, California's largest corporate farmer with more than 150,000 acres of farmland; John Holman, former chief loan officer and executive vice-president of **Wells Fargo**, the nation's 12th largest bank; and Malcolm MacNaughton, Sr., chairman of **Castle & Cooke**, a large multinational agbiz corporation, and board member of Wells Fargo.

Because it is headquartered in California and because it plans to attract most of its investors from California to buy land in California, this new venture needs only the approval of California's Department of Corporations to open for business. Foreign investors will get in through **Western Farmlands, N.A.**, a Netherlands Antilles limited liability company that will purchase limited partnership units in Western Farmlands Ltd. National Land for People has demanded a public investigation by the Department and Calif. Gov. Jerry Brown in an effort to block the plan.

The California State Board of Food and Agriculture has already voted to urge a complete study of Western Farmlands. Also, Richard Spohn, state **Consumer Affairs** director, characterizing the plan as "latter-day barons seeking to re-institute feudalism at the expense of the distressed farmer and consumer," has indicated his department will conduct an immediate investigation.

Western Farmlands and Ag-Land Fund vividly illustrate the enormous financial power that the American farmer and consumer face in the marketplace.

In my testimony to Congressman Nolan's subcommittee, I explained why the farmer who buys from local merchants and does financial business with the local bank is an endangered species. I only had to relate an all-too probable day in the life of a modern farmer.

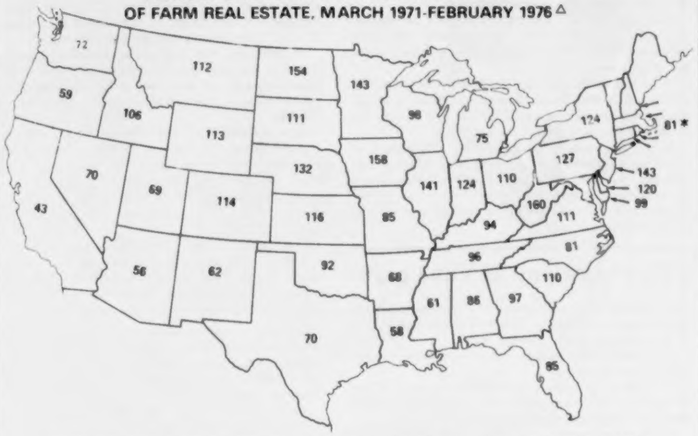
He awakens in the morning, puts on **Fruit-of-the-Loom** *underwear,* **Sears, Roebuck** *overalls and fixes his* **Quaker Oats** *and* **Pillsbury** *pancake breakfast.*

After feeding his livestock soybean meal from the **A.E. Staley Manufacturing Co.**, *he gets aboard his* **John Deere** *tractor and begins working his crops, applying with* **International Harvester** *machines the agricultural chemicals he bought from* **FMC Corp.**

Near noon he returns home, opens his **IBM***-printed electrical bill from* **Commonwealth Edison Company** *and, if he lives in Illinois, makes a few phone calls via* **Illinois Bell Telephone**. *He discusses with a* **Beatrice Foods** *buyer a milk sale from his dairy herd and the sale of some hogs with the* **Swift & Co.** *buyer, both sales for prices which, if he is lucky, may cover his production expenses.*

In the afternoon he gets into his car, made in part from **Inland Steel**, *pulls into the neighborhood* **Amoco** *station for gasoline, then goes on into town to pick up the week's groceries at the* **Jewel** *supermarket.* Sipping a cold **Dad's** *root beer, he discusses with a neighbor the likelihood of his next crop being shipped to market on the* **Illinois Central**

best copy available



PERCENT CHANGE IN AVERAGE VALUE PER ACRE OF FARM REAL ESTATE, MARCH 1971-FEBRUARY 1976 △

△ BASED ON INDEX NUMBERS OF AVERAGE VALUE PER ACRE

* AVERAGE INCREASE FOR MAINE, NEW HAMPSHIRE, VERMONT, MASS., R.I. AND CONN.

railroad and what **Peavey Co.**, *the giant grain trader, would pay him for such a crop.*

After dinner he relaxes in the living room watching his **Zenith** *TV and visualizes himself and his wife in the* **TWA** *commercial flying off to Europe, sipping* **Cutty Sarks** *and looking forward to a long-awaited and well-deserved vacation.*

I could continue, but the point that needs to be made is that all these products (and many more) and all these corporations (and many more) are today controlled and managed by those same members of the board who also direct Continental Illinois Corp.

And now that corporation wants to establish a $50 million trust fund so it can, in addition, own and lease back to that same farmer the very land he lives and works on daily.

Already Continental manages 245 farms, totaling 95,000 acres and is a major financial lender to agricultural and food marketing operations in the U.S. ($9.2 billion in 1975).

As noted before in *The Tiller*, as large corporations buy up more prime agricultural land, inflating its value and gaining increasing control of food production, both farmer and consumer are going to suffer.

As land values increase, expect food production and retail prices to follow. That's what's happening now. Agricultural land values since 1971 have skyrocketed 99.67% (see map) on the national average.

In 1976 alone farmland increased 17% nationally and the **USDA** has projected that the average acre will increase an additional nine percent this year. Food prices from 1973-76 shot up more than 42% while farm production expenses since 1970 have increased 70%.

Meanwhile, between 1970 and 1976 the average farm labor's share of the consumer's market basket decreased 12% by dropping from 7.4% to 6.5%, at the same time the farmer's average return on his investment was a meager 5.5%.

During this period, food chains were averaging 17.3% return on their investments; food processors, 22.8%; financial institutions, 12.4% (Continental Illinois, 14.1%); and industrial corporations, 11.6%.

To determine why food prices had increased so dramatically between '71 and '73, in July, 1973 the **House Subcommittee on Monopolies and Commercial Law** held several days of hearings.

Chairman Peter Rodino repeatedly worried during these hearings that the grain shortages of '71 to '73 were a sham, that the grain price increase of that period, which triggered a food price escalation from which we still have not recovered, was primarily caused by artificially manipulating the commodities market.

Testifying before Congressman Nolan's hearings in February, Dan McCurry, representing **Consumer Federation of America,** recalled Rodino's concern about the commodities market.

"I was pleased to learn that the **Internal Revenue Service** is also curious about Continental Illinois' proposed relationship between its Ag-Land Fund and its activities in the hedging and futures markets."

In the "Investments" section of its "Declaration of Trust" for Ag-Land Fund I, the bank states: "Trustee (the Bank) is specifically authorized to use the futures market for hedging the crops which the Fund expects to become entitled under leases providing for payment of a share of crops produced as rent . . . "

USDA questions Ag Fund goals

The proposed fund raises major philosophical questions concerning the goals of the American people with respect to the structure of the farming sector.

Should large bank trustee organizations become asset holders and landlords?

Or, should we continue to pursue the goals of individual ownership and control that have been fostered since the beginning of this nation?

Are there any social or economic goals that would be better served under such arrangements?

Such questions cannot be addressed on purely economic grounds, but must be viewed from a perspective that considers the longer run implications for the welfare of our system.

—J. Dawson Ahalt, staff economist, Office of the Secretary, USDA, at the hearing.

As McCurry pointed out: "With one owner, **Continental Illinois Bank,** controlling production of tens of thousands of acres of prime farm land, there exists the strong potential the bank can unduly influence the commodities market."

For example, if Continental Illinois would have invested all Ag-Land Fund I'd $50 million at an average of $2,000 per acre, a USDA analysis reveals that the bank could have harvested, per acre in 1976, 86 bushels of corn, 26 bushels of soybeans or 32 bushels of wheat.

If the fund had devoted all the land to these grains, prices on the **Chicago Board of Trade** as this issue of *The Tiller* goes to press would have yielded Continental Illinois $5,319 million in corn, $6,084 million in soybeans or $1,948 million in wheat.

As McCurry noted, these figures are approximate and subject to wide variations, "but they do serve to indicate the great power to lead the commodities market at strategic times which would come to the bank.

"And I can't help remembering that it was the directors and owners of Continental Illinois' predecessor, **Illinois Corn Bank,** who started the Board of Trade and who built the Board of Trade in the front door of the Bank on Chicago's La Salle Street. The intimacy of those relations is a point for investigation by this committee."

In defending such schemes as Ag-Land Fund I, the principle argument corporate America makes is, given agriculture's future need for capital, large financial institutions like Continental Illinois can do the job most efficiently.

John Knebel, Earl Butz' successor as Secretary of Agriculture and now with the Chicago law firm of **Baker and McKenzie,** which represents Continental Illinois Bank, has said of Ag-Land Fund I: "It seems to me the capital requirements for farming in the year 2000 just can't be supplied by government. This seems to be a viable alternative."

Continental's Terry Thompson, vice-president in charge of trust property, feels that the farm economy would benefit from the additional capital such a fund could lure into agriculture. "A lot of people feel that the farm economy needs an infusion of capital."

A recent survey, however, by **U.S. Federal Reserve Bank of Chicago,** stated: "Fund availability at agricultural banks remains good despite the pressures of increased loans, renewals and extensions" at banks in five Midwest farming states.

And as Victor Ray of the **National Farmers Union** correctly points out: "Capital is short in agriculture from time to time principally because of the risk in farming. Corporations in agriculture will not reduce the risk in farming, they will aggravate it because they oppose federal farm programs and prefer the boom and bust system we have had the last few years.

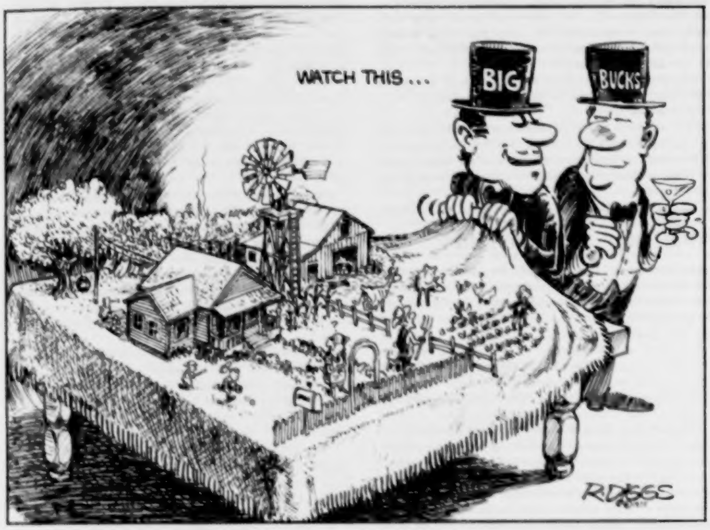
"Given farm programs which will assure a reasonable amount of stability and predictability, there will be no lack of credit to service agriculture's needs."

Efficiency in agriculture has in recent years become of prime importance to a food- and energy-conscious world. Developed countries seek advanced agricultural systems that will allow them to maintain a high standard of living at home while at the same time enter the world food market as exporters. Meanwhile, less developed countries seek new ways to feed their hungry and become self-sufficient in producing food.

In casting about for models after which they can pattern their agricultural programs, many of these countries, like many regions within the United States, are looking to California as the way to the horn of plenty.

For those familiar with the business of agriculture in California, however, it frankly is a chilling thought that someday large areas of the world might be miniatures of California's corporate-dominated farm economy.

Agribusiness in California is worth more than $17 billion, which significantly exceeds the state's many other industries. The wealth of California agribusiness has been



built from three key ingredients: Large, private land holdings; cheap, often imported labor; and abundant federally subsidized water.

It is no surprise, therefore, that Continental Illinois officials exhibited a keen interest in purchasing farmland not only in the Midwest and mid-South, but "western irrigated lands" as well. William Sayre, architect of Ag-Land Fund, has indicated they wanted parcels of approximately 640 acres, though 480 acres is the legal limit for which a family farm can receive subsidized water in California.

This poses the question: How did the fund plan to provide water to the western lands?

To privately pump this water is expensive because of pumping costs, which the tenant farmer would have to pay, and the cost of nonrenewable energy needed to maintain such an operation. Pumping has another drawback: It aggravates the western drought by further depleting a water table.

On page nine of Continental Illinois' *Annual Report 1976*, is a scene of arid range land stretching to the horizon. In the foreground, however, one can see a small portion of an irrigated "wheel of fortune". The bank captions this handsome photograph: "A center-pivot irrigation system, which moves over farmland under its own water-driven power, is one of many kinds of heavy equipment financed by a subsidiary of **Continental Illinois Leasing Corporation**."

What 'Ag' means

The very title 'Ag'- Land Fund is a public relations attempt to persuade us that any principle cloaked in *Ag*riculture is necessarily motherhood and apple pie. We know better. A close look at the Ag-Land Fund concept persuades us that the 'Ag' more accurately stands for *A*ccumulated *G*reed than for *A*griculture.

—Kathleen O'Reilly, executive director, Consumer Federation of America, at the hearing.

To use federally subsidized water on these 640-acre parcels Continental would be clearly violating the 1902 U.S. reclamation law. Originally to encourage family farming in the West, this long-abused law limits federally subsidized water to no more than 160 acres to one landowner or, in California, 480 acres with a wife and child. The owners must live on or near the land.

Issue No. 5

Standard Oil of California, Anderson-Clayton Co., Southern Pacific Co., **J. G. Boswell Co.** and other large multi-national corporations, however, have paid no heed to this law since its inception. Continental Illinois would be just one more offender.

Simply another example of how government policy and corporate interests fuse to create power destructive to rural America.

Now, when many big landowners are feeling public and legal pressure to sell their excess of 160 acres, as the water reclamation law mandates, we can ill afford them the opportunity to simply sell to another large entity such as Ag-Land Fund I.

What they have in mind

Last year when I introduced the Young Farmers Homestead Act in an effort to provide a mechanism to help young people get started in farming, the bankers and the investment houses were first to line up to testify loud and long against the idea.

A portion of the banking lobby testified that the proposal was a step toward socializing the farming industry, would make the government lord and master of land holdings, and that the program was financially unsound.

They now have the gall to come up with their own version of a plan that will do just the opposite and piously try to tell us that what they want to do is help young farmers. Their real intentions are to buy up the best land, rake off half of the productive value, establish a new generation of share croppers, and in the end reap an additional profit from escalating the price of land by their own machinations.

— *Sen. George McGovern (Dem., S.D.) in The Congressional Record.*

Unfortunately, a new contract between the 600,000-acre Westlands Water District in California and the **Bureau of Reclamation**, awaiting Senate ratification, would allow such transactions.

Advocates for a public sale of this valuable land at pre-water value hope Interior Secretary Cecil Andrus who is now personally reviewing the new Westlands contract will rewrite it to end this land and water monopoly in California and throughout the West.

Now that the West must make the most efficient use of its drought-stricken water supply, the most economic uses also must be utilized. As in other agricultural scales of efficiency, the independent family farmer more efficiently uses irrigation water than the large, and often absentee, corporate landowner.

Yet the federal government has contributed heavily to irrigation projects, such as Westlands, which traditionally has benefitted large corporate agriculture. From 1939 to 1959, land irrigated from federal water projects increased 131% while farmers were increasing their acreage irrigated from groundwater by 306%.

Meanwhile, except during World War II, the government was also paying huge sums, most of the money going to these same big farmers to cut back crops because of surpluses.

What might be accomplished by cutting back federal irrigation projects can be seen in an Iowa State study done in 1972 for the **National Water Commission.** The study, directed by Dr. Earl Heady, calculated that if farmers had to pay the full cost of water from federal projects, demand for surface water for irrigation would decline about one-third.

According to government figures, in California's mammoth Central Valley Porject, irrigation farmers repay only 17% of the project's costs while taxpayers and electric power users repay 83%.

It is with some irony that while Chicago-based Continental Illinois would seek western irrigated land, the California-conceived Western Farmlands Ltd. in outlining its "Overview of Risks" will be investing in real property, "which may experience water, energy and other shortages."

In its "Overview of Investment" Western Farmlands Ltd. notes, "For those operators who wish to sell their land because of pending retirement or no farming heirs, the Partnership can offer a means to simplify and secure both their retirement income and their estate disposition concerns."

This seems to translate into the simple fact that given the fears of many California farmers as to long-term effects of the drought, Western Farmlands Ltd. is offering them a seductive way out of what the farmer is now ininterpreting as a potentially disastrous financial situation.

Western Farmlands requires each investor to put up at least $1 million and have a minimum net worth of $4 million, excluding home furnishings and automobiles. The partnership will be limited to 100 investors, which would mean a potential of $100 million to invest.

A one and one-half percent commission will be paid to Dillon, Read & Co., Inc. for all funds raised by Dillon, Read.

"Additionally, investors must have sufficient business or investment experience, education, background, or similar qualification in order to evaluate the risk of the offering both from terms of potential of loss of the money invested, and lack of liquidity, and must not be dependent upon the assets or income therefrom to maintain their living standards."

In choosing the tenant farmers, Western Farmlands will consider "the farmers' farming ability, financial resources, experience in the proposed type of farming operations, and their adjacent land holdings or operations."

The "advantages" of all this, writes Western Farmlands, are:

"The Partnership offers the investors a conservative way to participate in 'land banking,' the ownership of one of the world's most limited commodities, resource-producing land. The Partnership's portfolio approach offers the investor a way to participate in the farming business while avoiding many of the risks associated with the business of farming.

"This approach also offers large investors a vehicle for placing significant amounts of capital in a well positioned situation for the future. It provides current income, potential for growth of the investment, and anonymity of ownership.

"Finally," the prospectus concludes, "this arrangement can represent a significant cost saving to large investors over the more traditional route of meeting agricultural investment needs via the use of advisors, consultants, realtors, and farm managers."

Investors, however, are warned that the partnership has not yet received a ruling on its status as a partnership and is presently relying on the opinion of counsel (Brobeck, Phleger & Harrison).

"There can be no assurance that the partnership will not at some later date be found to be an association taxable as a corporation, in which case some of the tax benefits associated with this offering would not be available . . . "

To sweeten the idea for farmers, Western Farmlands notes that the approach allows farmers "an opportunity to realize the appreciation they have seen on their farmlands. It provides them with the funds necessary to purchase the latest farm equipment, allowing them to remain competitive, and providing them with the land base they need to continue their operations."

In stating its reasons for founding the company, Western Farmlands' developers seek to underscore many of corporate agribusiness' frequently used and self-serving arguments designed to perpetuate its grand scheme for American agriculture.

"The farmers' productivity increases . . . have resulted in higher operating expenses for them. The high capital cost of acquiring these modern means of production and the ever increasing cost of labor have acted together to change farming from a labor-intensive to a capital-intensive industry.

"When these increased capital demands are put together with the increased price of land, it can be seen that something must give for the farmer: he needs the new equipment, etc., to remain competitive. At the same time he must be farming enough acres to lower his per-unit-costs of production to reasonable levels. Most farmers do not have the means to achieve both."

Preservation of investor's capital, investment experience, financial resources, land banking, avoiding risks, well-positioned situations, anonymity of ownership, cost savings, appreciation, tenant farmers, and the latest farm equipment: These are the bywords of corporate agribusiness.

If this country accepts the Continental Illinois and Western Farmlands concept of agriculture, American farmers will become no more than hired hands with no power to make decisions, no proprietary interest in the land, and the quality of rural community life will suffer.

As Dan McCurry stressed to the **House Agriculture Subcommittee on the Family Farm**: "Our challenge is not simply Ag-Land Fund I, but the power of concentrated financial institutions to decide the shape and direction of American agriculture. If we simply stop Ag-Land, our vision of the problem will have fallen tragically short."

Although Continental Illinois subsequently withdrew the Ag-Land Fund proposal, few people in Washington, D.C., or the farm community believe the plan is dead. Bank president John H. Perkins has refused to flatly rule out any future efforts by the bank to invest in farmlands.

Attorney Knebel also has reportedly been spending many hours on Capitol Hill trying to convince members of Congress of the merits of the bank's plan.

Congressman Nolan, however, has indicated his committee will take legislative action:

"The principal issue is land ownership and the implications of the trend toward large corporate holdings. The subcommittee intends to vigorously pursue the issue of corporate land ownership and revisions of the tax code to assure that there will be no more Ag-Land trusts."

Giant gobblers

It is time we called a halt to the domination of prime lands by oil companies, conglomerates and syndicates.

It is essential that federal and state agencies monitor and ensure that the sale of drought-distressed lands, prime lands, and excess land holdings by such giants as the Southern Pacific Railroad not be gobbled up by investment banking syndicates seeking participation by non-farmer land profiteers.

— Lionel Steinberg, President,
California State Board of Food and Agriculture

At the same time the Family Farm Preservation Act has been introduced which would amend the Federal Deposit Insurance Act to prevent federally-insured banks from investing collectively pooled trust funds in farmland.

While family farm advocates can claim a victory of sorts against Continental Illinois, it is clear that corporate agribusiness, as exemplified by Western Farmlands, will continue to seek new ways to gain control of our prime agricultural land.

Now is the time to enact federal legislation to protect the family farm. Soon it may be too late. Oren Lee Staley, president of National Farmers Organization, says it succinctly:

"The farmhouse lights are going out all over America. And every time a light goes out, this country is losing something. It is losing the precious skills of a family farm system. And it is losing free men."

□

Dear Reader:

Today in this country there's a broad but unstructured network of local and regional consumer, farm, labor, church and public interest groups that are vitally concerned with the question of who produces, manufactures, processes and markets our food.

And an increasing number of local, state and national elected officials and representatives are becoming alarmed about the ever-expanding financial and political power being exercised by agribusiness.

The nature of agribusiness is no longer local or regional, it's national in scope. It is necessary, therefore, to establish lines of communication between all these consumer, farm, labor, church and public interest groups and government leaders. Such an effort can be a first step in the organizing of an alliance that can work toward making agribusiness serve the needs of all people.

The AgBiz Tiller, a monthly news letter that factually and fairly monitors the activities of agribusiness from a public interest perspective, believes it can play an integral part in this communications network. As a Public Information Officer for the National Sharecroppers Fund, Research Director for the Food Task Force of Consumer Action in San Francisco, a free-lance investigative journalist covering rural affairs, Corporate Research Director for three and one-half years and now Co-Director of the Agribusiness Accountability Project, I know the need for *The AgBiz Tiller*.

This news letter reports, interprets and provides the corporate information necessary to assist you in establishing your own priorities in dealing with agribusiness.

Simply fill out the coupon below and mail it with your check to *The AgBiz Tiller* and start receiving this valuable news letter today.

I am looking forward to your interest and support of *The AgBiz Tiller* in the year ahead.

Sincerely,

A. V. Krebs

A.V. Krebs, Publisher

Subscriptions

TO *The AgBiz Tiller* DATE ____________________
AAP West SR5
San Francisco Study Center
Post Office Box 5646
San Francisco, California 94101

Please send me ***The AgBiz Tiller*** for
12 issues for $12. (Individuals)
12 issues (two copies each issue) for $30
Payment is enclosed.
36 issues for $30.
Institutional Subscription

NAME ____

ADDRESS ______________________________________

CITY __________________ STATE __________ ZIP __________

AFFILIATION ___________________________________

The AgBiz Tiller
San Francisco Study Center
Post Office Box 5646
San Francisco, California 94101

Non-Profit Organization
U.S. Postage
PAID
San Francisco, California
Permit No. 10576

6 Part V—Sun., Mar. 19, 1978 Los Angeles Times

The Lament of a Nebraska Farm Wife

BY MARIAN LENZEN

The average age of the American farmer is 53; the average of the American farm wife is 50. That fits me exactly.

I have been a farm wife for 30 years. We have seven children. The four boys are self-sufficient; none are farmers, not because they did not like farming but because they were forced to face reality. Our 800-acre farm will support one family at the most and, with farm prices at current lows, it will hardly do that.

We grow 150 acres of wheat each year, 150 acres of summer fallow, and the rest is grass. We also have a small cow-calf operation. We consider ourselves successful family farm operators even though, by the material standards prevalent in our society, we may not appear to be so. Most of our machinery is old enough to vote; tires are no longer available to fit our truck. But we set priorities and the No. 1 priority was to educate our children.

Our four sons all worked part-time after age 16. They saved money, and, with our help, loans and part-time work, all have graduated from the University of Nebraska. Two of our daughters are in college. We figure it was cheaper to finance seven children to four years of college than to put one son into farming.

Marian Lenzen, a farmer's wife, lives in Nebraska. Her article also appears in the Washington Post.

The only way for a young man to get a farm today is to marry it or inherit it.

Farmers have been told for years, ever since World War II, that big was better, more efficient. Squeeze your neighbor off his land! Farms have been decreasing by 1,000 a year just in Nebraska. According to the Department of Agriculture, farm population stood at 8.3 million in 1976, down 6.7% from 1975 and 15% less than in 1970. Farms have become bigger and fewer and farm income has fallen. As farms grew in size and farmers improved their efficiency, they produced more, the market glutted and prices fell.

Yet the price of all the manufactured machinery, gasoline, feed, seed and fertilizers that farmers bought went up and up while the price of grain, meat and milk went down.

That's what agribusiness efficiency did for farmers. It busted the small operators and forced them into the cities; and it increasingly consolidated the production, processing and distribution of food in this country into the hands of a few big multinational corporations.

Big business and big government now own or directly control all the resources and means of production in the world. The only holdout against complete corporate takeover is the family farmer.

According to a recent article in Mother Earth News, 12 landholders now control over half the state of Maine. (They may have to give some of it back to the Indians now.) Twenty five control 52% of the state of California. All of this has been accomplished with the aid and consent of the federal government. The 1902 law that prohibited the irrigation of more than 160 acres by one landholder from a federal water project has been completely ignored. Government policy has encouraged the big to get bigger, the rich to get richer and the small to get lost.

Farm prices are too low. Even farmers with no debt will find it next to impossible to survive without mortgaging their land. Many farmers are modern-day slaves, owned and controlled by their bankers. If Congress can legislate minimum wage, it can legislate minimum price for raw farm products.

President Carter said in a recent news conference that parity prices for grain were not desirable because of the effect such prices would have on retail food prices. You can't say it any plainer than that. Food stamps are being used to subsidize the poor's higher fuel bill. The oil companies and utilities can raise prices and get what they ask, but farm prices are to be deliberately suppressed. Is it fair to ask 4% of the U.S. population to bear the brunt of the fight against inflation?

When farm prices went up in 1973, machinery prices soon doubled. Not because of supply and demand, but because the manufacturers knew farmers had made some money and they jacked up machinery prices as high as traffic would allow. It's called gouging. If it were supply and demand, prices would be coming down because machinery is not selling and the manufacturers have had to lay off employes.

New York City and agriculture are both asking the federal government for help. Both represent approximately the same number of people. Will government pay more attention to men wearing Brooks Brothers suits and $200 shoes than to men wearing Oshkosh overalls and Red Ball work boots? William Jennings Bryan said it best: "Burn down your cities but leave our farms and your cities will spring up again as if by magic, but destroy our farms and grass will grow in the streets of every city in the country."

If cheap food is to be government policy, then the government must pay to the farmer the difference between market price and parity. A realistic limit should be made on these payments. City residents resent it when a few large operators and corporations collect huge sums of money from the government. They don't like to subsidize farmers to a European vacation any more than I like to subsidize the yachts, hunting lodges, country club dues and three-martini lunches of the high-salaried urban executive.

Low farm prices are having an effect on the work ethic in rural America. We taught our children to work hard, live frugally and save for a rainy day. I'd never recommend that now. It gains nothing. I hate to admit it, because it sounds so un-American, but I must face reality.

AGRIBUSINESS ACCOUNTABILITY PUBLICATIONS
Editor/Publisher A V Krebs
(415) 665-8970

A
Background Report
on the
Family Farm Antitrust Act of 1979
(Senate 334 & House of Representatives 1045)

Congress, in both House and Senate and in each of its sessions since 1972, has seen unsuccessful legislation introduced which seeks to declare "that it is the policy of the United States . . . to restore competition to the agricultural industry and to provide for the continued existence of the family farm."

In these seven years each House has held but a single day of hearings. Traditionally called the "Family Farm Antitrust Act" and designed to amend the Clayton antitrust act "to provide additional regulation of certain anticompetitive developments in the agricultural industry" the legislation is again being considered in 1979 as S. 334 and H.R. 1045.

Introduced by Representative Robert Kastenmeier (D.-Wisconsin) H.R. 1045 presently has 14 co-sponsors who include: Alvin Baldus (D.-Wisconsin), John Burton (D.-California), David R. Obey (D.-Wisconsin), Gerry E. Studds (D.-Massachusetts), George E. Brown, Jr. (D.-California), Leon E. Panetta (D.-California), Paul Simon (D.-Illinois), Richard Nolan (D.-Minnesota), Portney H. (Pete) Stark (D.-California), James M. Jeffords (R.-Vermont), John F.Seiberling (D.-Ohio), Elizabeth Holtzman (D.-New York) and Norman Y. Mineta (D.-California).

On the Senate side S. 334 was introduced by Senator Birch Bayh (D.-Indiana) and he has been joined by Howard Cannon (D.-Nevada), J. James Exon (D.-Nebraska), Carl Levin (D.-Michigan), Larry Pressler (R.-South Dakota) and Patrick J. Leahy (D.-Vermont) as co-sponsors.

C/O EARTHWORK an urban center for the study of land and food

3410 19th St San Francisco, CA 94110 (415) 626-1266

Dr. Walter Goldschmidt, the eminent California anthropoligist and social scientist, in an address at the University of Missouri in Columbia, Missouri in 1976, I believe, described for us beautifully the very crux of the problem that faces U.S. agriculture today.

> "I said earlier that one aspect of that Protestant ethic . . . is a belief that each individual's value is established by his accomplishment, and that for that reason each person should be allowed to grow as wealthy and as powerful as he can. But this unfettered growth of wealth and power threatens the very social framework out of which it has emerged. It is not an easy dilemma to solve, for it confronts freedom with equality --- an age-old issue.
>
> ". . . How much freedom? How much equality? Very much is at stake, not only for the farm communities, but for the whole of the American polity.
>
> "Even if I could, it would not be appropriate for me to solve this issue for you. It is not enough that I ask you to give it your individual and collective attention. There is, however, a simpler solution.
>
> "If, as I have suggested, the growth of corporate control of agriculture is not a product of efficiency, intelligence and hard work --- of virtue according to the Protestant Ethic --- but a consequence of policies and manipulations, the matter takes on a different character. The task is to reformulate policies respecting agriculture so that the competitive advantages of large scale operations are removed, so that the ordinary working farmer has an equal chance. If this is done, it may not be necessary to resolve the dilemma between freedom and equality."

The Consequence of Policies and Manipulations

Indeed, the "consequence of policies and manipulations!"

Back in 1962 a blue ribbon panel of 200 businessmen and educators, under the aegis of the Research and Policy Committee of the Committee for Economic Development (CED) issued a report, "An Adaptive Program for Agriculture."

Authors of this report included many individuals who in the years to come would be initiators of government policy and who would implement those policies: Dale Hathaway, former assistant secretary of agriculture with responsibilities for overseeing the farm price support and other government programs; T.W. Schultz, University of Chicago economist; Paul Samuelson, M.I.T. economist, and Herbert Stein, former head of the Wage and Price Council and the top economic advisor in past administrations.

This 1962 report begins with a clear presentation of CED's view of the problem.

> "The common characteristic shared by these (agricultural) problems is that, as a result of changes in the economy, the labor and capital employed in the industry cannot all continue to earn, by producing goods for sale in a free market, as much income as they formerly earned, or as much as they could earn employed in some other use: that is --- the industry is using too many resources!"

Using too many resources, measured by return on investment, is then pin-pointed as the key problem, and they immediately inform us that,

> "The movement of people from agriculture has not been fast enough to take full advantage of the opportunities that improving farm technologies, thus increasing capital, create."

The Adaptive Approach

Thus, having stated the "farm problem" as too low a return on investment caused by farmers not leaving agriculture fast enough, the CED report goes on to describe "Three Possible Approaches to the Problem of Agriculture" which include a "Laisser-Faire, Protectionist and Adaptive Approach." The last of these is their proposed solution.

> "The adaptive approach utilizes positive government action to facilitate and promote the movement of labor and capital where they will be most productive and earn the most income. Essentially this approach seeks to achieve what the laisser-faire approach would ordinarily expect to achieve but to do it more quickly and with less deep and protracted loss of income to the persons involved that might result if no assistance were given.

> "The adaptive approach requires improved knowledge of available employment opportunities, and measures to finance movement and retrain workers; that is, a generally improved labor market. It works best when there is a high rate of economic activity and employment."

Thus they stipulate their approach as "adapting" agriculture through the removal of excess "resources" (farmers), and then utilize these in other sectors of the economy where they can generate a greater return on "investment of resources." As they state over and over again, there is a "persistent excess of resources, particularly labor, in agriculture over the quantities that could have earned, by sale of their product (Labor power) in free markets, incomes equivalent to what similar resources could have earned in other uses."

Having defined the problem, they go on to look at the causes of this failure of "resources to flow" out of farming, and state that, "the support of prices has deterred the movement out of agriculture."

Having developed a careful explanation of the problem as being too many farmers engaged in agriculture, which is caused by the support of farm prices, they go on to spell out their solutions. "The Choices Before Us: a) leak-proof control of farm production or b) a program, such as we are recommending here, to induce excess resources (primarily people) to move rapidly out of agriculture."

The Committee for Economic Development's "Program for agricultural adjustment calls for a) policies and programs to attract excess resources for use in farm production and b) for measures to cushion the effects of the adjustment on property and people." In keeping with their concern that the program be "large-scale, vigorous, and thorough-going," they propose,"

> "If the farm labor force were to be, five years hence, no more than two thirds as large as its present size of approximately 5.5 millions, the program would involve moving off the farm about two million of the present farm labor force, plus a number equal to a large part of the new entrants who would otherwise join the farm labor force in five years."

In spelling out the policies and programs needed to bring about this change of "removing resources" (primarily people) from agriculture, they focus on the primary strategy of adjustment of agricultural prices. As they explain,

> "The basic adjustment requires to solve the farm problem, adjustment of resources used to produce farm goods (farmers) cannot be expected to take place unless the price system is permitted to signal to farmers."
>
> They go to recommend that
> ". . . the price supports for wheat, cotton, rice, feed grains and related crops now under price supports be reduced immediately. The importance of such price adjustments should not be underestimated. The lower price levels would discourage further commitments of new productive resources to those crops unless it appeared profitable at the lower prices. Also, the lower prices would induce some of the increased sales of these products both at home and abroad . . ."

The Big Squeeze

Of course, the fact that many of the authors of this 1962 report were in positions of policy-making power in the government does not necessarily mean that these policies were in fact implemented. However, we do have the historical record of agriculture at that time, and a 1974 follow-up report from the CED itself to determine the actual implementation of this plan to squeeze farmers out of agriculture.

> The CED begins the 1974 report with this observation:
> "The situation of U.S. agriculture has changed drastically within a decade. In 1962, when the Committee issued the policy statement "An Adaptive Program for Agriculture," the problems of U.S. farming were mainly related to maintaining farm income in the face of continuing surpluses. The diagnosis was that agriculture was using too many resources; fewer farms and farmers could produce all the output then required or even more than could be marketed. As a result of these findings, we prescribed programs "for the better use of our resources in agriculture (that), vigorously prosecuted, would enable the people involved in farming to receive higher incomes without government controls or subsidy."
>
> "In general, policies of this nature have been pursued by the U.S. government, with the result described in the present statement: namely, that U.S. agriculture today is far more efficient, a far more productive industry."

Their evaluation is that past analysis and recommendations were fundamentally correct, the government had faithfully implemented their recommended policies, and that the desired results were achieved, e.g., one-third fewer farmers.

As indicated in the brief introduction cited above, the 1974 policy planners for CED concluded that enough of the "excess resources" had been removed from agriculture (primarily through the enforcement of below parity pricing), that it was time to "stabilize the farm population to maintain production for both helping the world food crisis and for keeping food prices down here at home." Thus the ultimate goal of the CED had been accomplished.

> "Because of the sustained reduction in farm population, production has become concentrated on fewer farms. As a result, two readily identifiable segments of agriculture have emerged, one geared largely to farming, the other to jobs in the industrial and service economies.
>
> "The farm population (4.5%) is now so small in relation to the total population that further migration from farms will not be substantial. Annual agricultural employment, which was 4.5 million persons only ten years ago, is now about 3.5 million persons, or only 4% of the total labor force, and it is still declining. It represents approximately the optimum farm labor force that this Committee envisaged for the 1970's in its statement "An Adaptive Program for Agriculture."

The creation of a two-tier system, with a few large farms and the majority poor enough for welfare was accomplished.

Later, they summarize their 1974 statement:

> "This statament examines the vast changes that have taken place in U.S. agriculture in the past decade. The reduction in the number of farms, the great increase in productivity, the industrialization of farming, and the urbanization of rural life have produced two readily identifiable agricultural sectors.
>
> "One sector consists of large farms that, although numbering about 25% of all farms, produce 80% of all food marketings. This group is engaged in the production of the major fodd and fiber crops such as grain, oilseeds, and cotton. These products of commercial agriculture have been the focus of U.S. agricultural policy over the past forty years and are now the major crops in world trade.

> "The other 75% of U.S. farms, accounting for only 20% of the output, are operated largely by farmers who are increasingly dependent on the industrial and service sectors of the economy to provide supplemental or full-time employment. Where financial distress exists in this group, it is rooted mainly in general social and economic causes, not in farm prices. Assistance for these farmers should be extended not through special support programs but rather through the same kind of program that should be made available to all disadvantaged Americans, urban or rural (i.e., through a national welfare assistance program based on a minimum annual income). (emphasis added)

Communities of Economic Interest

Let us make no mistake about it, the authors of this 1974 CED report, like those in 1962, are in strategic and well-positioned roles both inside and outside government to see that there recommendations are enacted.

For example, the membership of the CED's Subcommittee of Government Farm Policy, which drafted the 1974 report, served on the board of directors of Independent Bancorporation, Control Data Corp., Kraftco, Deere & Co., Green Giant Co., Ralston Purina, Del Monte Corp., Universal Foods Corp., Pillsbury, H.J. Heinz,. Quaker Oats Co. and CPC International among others.

In addition others who were advisors to the subcommittee represented the Stanford University Food Institute, Harvard, University of Chicago, the Agricultural Development Council, Cargill Inc., and Luther Tweeten, from Oklahoma State University's Department of Agricultural Economics.

Tweeten's role is interesting for in addition to being the primary contributor to Secretary of Agriculture Bob Bergland's 1978 Report to Congress on the Status of the Family Farms he is a key policy writer within the current administration.

At present he represents the thinking which is pushing for policies which would create a U.S. agricultural system consisting of a large number of small farmers, supported primarily by off-farm income and supplying necessary inputs to larger farmers, and farms, basically corporate financed and extremely capital intensive, which would successfully eliminate almost all moderate-size family farms.

Reading through the 1974 CED report their actual strategies and tactics become abdundantly clear. However, their underlying goals and motivations remain vague until the very end of the report. Then they wrote:

> "The absence of widespread surpluses and economic distress resulting from low farm income has provided an atmosphere relatively free of the political pressures from farmers experienced in the past."

Thus the real target of the CED appears to be the political strength of the farmers, and they acknowledge that their tactics enforcing below parity prices, and providing income subsidies, has successfully minimized farmers' ability to exercise political power.

Minimizing Farmers' Power

My California colleague, Mark Ritchie, and the person who truly deserves the credit for putting together this analysis of CED's strategies, tactics and goals (Copies of The Loss of Our Family Farms: Inevitable Results or Conscious Policy can be purchased through him at 824 Shotwell, San Francisco, California 94110) like myself sees the minimizing of farmers' power as crucial to corporate agribusiness for several reasons.

1) Farmers have historcially aligned themselves with trade unions and urban workers, including the formation of Farmer-Labor Parties which held political power in a dozen midwest and southwest states. These parties were committed to the restriction and control of corporations in their states.

2) Corporate agribusiness clearly has three main goals: a) substituting capital for efficiency and technology for labor; b) standardizing the food supply, and c) the creation of synthetic food. In each of these goals the role of the farmer in producing food is greatly diminished.

3) The political strength of the farmer has been displayed in their ability to get farm policies, such as parity income. These policies helped strengthen their economic, thus political power, making it difficult for corporations to control agriculture as they were attempting to control all other industries.

This fact is apparent in CED's admissions that "capital could not receive an adequate return on investment." This strength of farmers, (Measured by low return on corporate investment) lead the CED planners to attempt to break the power of the farmers by forcing a third of them off the land and often into unemployment. Once this is accomplished to their satisfaction, maintaining the large majority of those left on welfare becomes a secondary task and insures the farmers' political impotence.

As Kenneth Boulding, one of the authors of the 1962 CED report, emphasized:

> "The only way I know to get toothpaste out of a tube is to squeeze, and the only way to get people out of agriculture is likewise to squeeze agriculture. If the toothpaste is thin, you don't have to squeeze very hard, on the other hand if the toothpaste is thick, you have to put real pressure on it. If you can't get people out of agriculture easily, you are going to have to do farmers severe injustice in order to solve the problem of allocation."

Severe injustices, from below parity prices, to putting farmers into debt for their entire lifetimes, have been the conscious policy recommendations of major corporations represented by the CED, and in many instances, they were successful in implementing these policies through our government. They succeeded in squeezing farmers out, and are now wanting to put most of these few (75%) who are left on welfare.

Progress???

Corporate planners have already recognized certain "changes" in their strategies which must be adopted, and are adjusting accordingly.

One change is the recognition that if "the toothpaste is thin, it will squeeze out of tube easier." If farmers are resisting moving out of agriculture, and are able to demand and receive a certain amount of "help" in Washington, then it makes sense to define their problem as "cash flow," point to the inflated land prices as a sure sign of income to farmers, and extend more credit to them to help "tide them over."

This tactic both puts extreme pressure on farmers to produce more and more to meet their payments, and it insures that if farmers are "squeezed" out that they will owe most of their assets (often built up over several generations of labor) to the bank ending up with nothing.

As Andy Kitmer, a dairy farmer, has noted:

> "Progress is if you can get enough money to buy your neighbor out. You're progressing. But then we wonder 'when's it going to be our turn for our neighbor to buy us out?' Then when you buy three neighbors out who can afford to buy you out? The big corporations."

Another change in the strategy of groups like the CED is their adoption of the "plight of the small farmers" as an issue of important concern. Their initial plans to "squeeze" these farmers out was resisted by many who chose to work another job off the farm or to accept an even lower income to retain the small yet important assets which they controlled.

Policy writers for corporations, such as Luther Tweeten, recognized this pattern, and discovered how it could be used to the advantage of their long-term goals. These small farms came to be seen as important suppliers of inputs to larger farms especially those inputs which were extremely labor-intensive, such as feeder pigs, broilers, etc. These were much more cheaply produced on small family-type farms than on large, hired-labor and capital intensive corporate-type farms.

Needed Federal Legislation

It is with this analysis that I now want to direc- attention to family farm antitrust legislation for I feel such legislation has an extremely important role to play if we are to not only save family farms, but also promote a family farm system within rural America.

I say it has a role because I also believe that pending legislation such as the Reclamation Lands Opportunity Act (H.R. 3393) and the Family Farm Development Act and land preservation legislation must also be considered as part of the package if we are to have a truly healthy agricultural economy in this country.

While the USDA statistics are often vague and sometimes outright misleading as to the actual number and nature of large corporations involved in farming we do know they exist and are not only increasing in number, but creating a growing number of problems.

Hopefully, some of the root causes of these problems will be the issues that this subcommittee and current family farm antitrust legislation can effectively deal with in the weeks and months ahead. The fact that this type of legislation has been introduced in every session and on both sides of the Hill since since 1971 and that this is the first time the Senate has held formal hearings on such a bill shows we are making some progress.

Unfortunately, however, in that same period of time, based on Bureau of Censes figures, we have lost over 392,000 farms, some 65,000 rural businesses and agricultural production under corporate contract went from near 25% to almost 50%.

In preparing Agribusiness Accountability Publication's *Directory of Major U.S. Corporations Involved in Agribusiness* in recent years the names of many of our top companies frequently appear in the agricultural production list.

Names such as Standard Oil of California, Cargill Inc., U.S. Steel, Tenneco Inc., RCA, Beatrice Foods, Esmark, General Foods, R.J. Reynolds, LTV, Boeing, Burlington Northern, Greyhound, Ralston Purina, Gulf & Western, Southern Pacific, Coca Cola and Getty Oil to name but a few.

Who are the large corporate farmers in America today is an important question and one that needs an immeasureable amount of more research. However, by way of actual example, I would like to present to this subcommittee some brief illustrations of the effects of corporate agribusiness on rural *and* urban America.

Land Ownership and Development

Very often large corporations acquire agricultural land for speculative purposes as the price of that land becomes more valuable. Agricultural activity becomes merely a satellite venture as Tenneco Inc. characterized it when they bought the huge Kern County Land Company several years ago:

> "We consider land as an inventory, but we are all for growing things on it while we wait for a price appreciation for development. Agriculture pays the taxes plus a little."

Very often when the corporation does sell the land for agricultural purposes the company has become or is a vertically integrated operation and the land contract specifies the purchaser will market his/her crops through the company. In some areas this tends to create a whole new generation of tenant farmers and sharecroppers.

Gulf and Western announced last year it is selling some of its vast land holdings in the Dominican Republic under a program dubbed "workers' capitalism." It involves the buying of some 30,000 acres of sugar cane land by the workers. Money, however, would not be exchanged because the workers would pay with produce. That means they would amortize their debt through selling sugar cane to a Gulf & Western mill.

Often prime agricultural land is held simply by a corporation, which can afford the luxury of time, waiting for the right price from a developer. Just a couple of weeks ago I noticed this real estate ad in the WALL STREET JOURNAL:

> "COLORADO FRONT RANGE WATER AND LAND INVESTMENT: Superior Farm located in path of development. Northern Colorado location just west of Interstate 25. Owner says sell now --- $3500.00 per acre with very valuable water rights. Farm income while you wait."

Recent newspaper headlines tell the continuing story of what is happening to our farm land: "Huge Farm, Huge Harvest, Hugh Income --- Managers, not farmers, grow Carolina crops;" "2 Mystery Buyers Pay $25 Million for Madera Ranch;" "Iowa's biggest farm sells $5 million parcel --- Reasons unknown for sale of farmland near Odebolt;" "Newhall Land Agrees to $22.5 Million Sale of California Acreage;" "Jim Walter Corp. Is Planning to Sell Its Sugar Business:" "Times Mirror Boosts Holding in Tejon Ranch," and (one month later) "Times Mirror May Sell Tejon --- If Price Right."

Absentee Ownership

Confucius, the Chinese philospher, once observed "the best fertilizer is the footsteps of the landowner." Unfortunately, today it is the slick soles of corporate America that are trodding on our farmlands.

For the past two-three years there has been considerable alarm over foreign ownership of our agricultural land. Studies indicate that although such sales are increasing the over-all figures are but a fraction of the total acreage in U.S. farmland. Congress, meanwhile, passed in its last session the Foreign Investment Disclosure Act of 1978.

The real issue here, however, is a good deal broader than foreign ownership; it is one of absentee ownership.

Howard Hjort, USDA's director of economics, told a House Agriculture subcommittee on the family farm in June, 1978:

> "Perhaps the single most important structual change which may be occurring in the agricultural sector today is the increasing frequency of the separation of ownership from operation, in some part encouraged by the attractiveness of farm land investment."

Hjort's concern needs no better illustration than the plight of the 10,000 acre Skyline Farms, ten miles northwest of Ontario, Oregon.

Dug from sagebrush-covered desert it was originally started by H.J. Heinz's Ore-Ida Frozen Foods Division. However, in 1973 it was sold to J.R. Simplot Industries to continue raising potatoes. Simplot Industries is controlled by J.R. Simplot, owner of one of the world's largest privately-held multinational corporations. In May, 1978, because it had become "uneconomical for potato production" Simplot sold the land for $5 million to Prudential Insurance Co.

As to the consequences of absentee ownership, where landowners who live outside the farm area take much needed capital out of the community and thus less of an interest in the surrounding rural community, I refer you to the outstanding classic studies on this problem done by Dr. Walter Goldschmidt.

Tax Write Offs

I make no pretense to the fact that I understand the complicated tax laws when it comes to agriculture. I do know, however, that such laws have traditionally favored large corporate interests. As the 1978 General Accounting Office study, "Changing Character and Structure of American Agriculture: An Overview," notes:

> "Farming has often been attractive to nonfarm investors, and one of the primary reasons is the special set of tax rules which apply to farming. Although the rules were generally devised to help small farmers, today they provide an excellent tax shelter for outside investors, placing pressures on the farmers they were designed to help."

As shown by the Agribusiness Accountability Project's study on tax-loss farming, "Sowing the Till," the excellent research developed by National Land for People on foreign tax shelters in agriculture, and in recent years the efforts by Continental Illinois and Merrill Lynch to establish AgLand Fund I, the tax dodge and loophole has become one of corporate agribusiness' standard farm implements

Allow me to provide this subcommittee with one graphic example related to the tax question in agricultural production.

Last year at about the same time angry California property tax payers were passing Proposition 13 and sending shock waves throughout the state and nation, I noticed that the Cargill Corp. had purchased Leslie Salt Co. for $30 million in the largest single land sale in San Francisco Bay Area history. Included in that sale was over 32,000 acres of salt ponds.

The sale revived a memory of an item which had appeared several months previous in the WALL STREET JOURNAL.

It seems Cargill Inc. had refused to pay the city of Buffalo, New York property taxes on three grain elevators for five years before it abandon them. Although the city acquired the property at its own tax sale, it couldn't get as much from selling the property as Cargill owed in taxes, so Buffalo tried to collect $896,000 from Cargill in court.

New York State Supreme Court ruled, however, the city couldn't collect since state law compelled the city to bid on the property at the tax sale and state law deems the delinquent taxes to have been paid when Buffalo picked up the property at the tax sale.

Remembering this item I took it upon myself to write to the various tax assessors around the S.F. Bay Area explaining this story and asking them what their counties would do in a similar situation. The replies I received were alike in respect to the procedure for collection. However, one asessor noted at the conclusion of his letter:

> "After this long explanation, what I am really telling you is that we could possibly find ourselves in a similar situation as Buffalo, New York."

How ironic, here are middle class property owners boiling mad over the taxes they must pay, taking their vengence out on state and local government (rather than the real tax evaders) and creating incalculable social turmoil while the nation's largest private corporation, with revenues of $11.6 billion and profits of $121 million in 1978, comes into the state as a major landowner and we are not even sure we can collect their taxes if they decide to skip town.

Energy and Environment

As large corporations involved in agribusiness substitute capital for efficiency and technology for labor they becoming increasingly dependent on fuels, fertilizers and pesticides which, in turn, leads to energy dependence on non-renewable fossil-fuel resources.

Each day we see examples of that waste.

Recently in the Pacific Northwest's Mid-Columbia Basin the giant multinational corporation, IU International, through its subsidiary C. Brewer Ltd. sold its 10,000 acre Oregon Potato, Inc. operation in Oregon to a group of 12 investors.

After buying the property the new general manager, Frank Dye, pointed out that the new owners were not going to grow potatoes. "It's going to take us at least two years to rehabilitate this place," Dye explained. A poor rotation program by its former owner has left the soil badly in need of rehabilitation.

"We found that Oregon Potato was using 20,000 gallons of water a day needlessly, just because of the type of sprinkler heads used," Dye added. Often farms in this water-rich area, dominated by large corporate farms, over-irrigate. Consequently, they fertilize too heavily to compensate for poor management.

According to Dye some farms are pumping up to 35% more water than is needed.

The corporate role in agriculture and its waste of natural resources is not simply confined, however, to its own operations. It also influences other not so large farms.

One Booneville, Iowa farm couple wrote to the DES MOINES REGISTER:

> ". . . We agree that it would be wonderful not to have to employ pesticides, chemical fertilizers and herbicides. Anyone who has seen and smelled these products (which are foul smelling and toxic to the skin) would undoubtedly (agree) that they can't help our bodies or the environment.
>
> "However, while raising our family and paying for a farm and equipment whose costs are exorbitant, our goal must be to make as much profit per acre as possible . . . Try telling your banker or landlord that you have not used any of these methods and that the yields will be cut appreciably because you want to save the environment. Chances are you won't be farming next year . . ." (emphasis Added)

Cost Efficiency

The energy and environmental costs in agriculture, of course, are directly related to the much bigger question of the cost efficiency of big vs. small farms.

Not only have numerous private and USDA studies in the past shown the family farm to be the most efficient agricultural production unit, but other recent government data has given new fuel to the argument that big is not necessarily better when it comes to farming.

According to the 1974 Census of Agriculture, expenses as a percentage of farm production for farms marketing between $10,000 and under $200,000 in gross agriculture production annually are less than those marketing $200,000 and over of agricultural products (68 cents vs 81 cents out of every dollar of sales).

A review of 1975 Internal Revenue Service data indicates the same situation. For individual farms with sales of between $10,000 and $50,000 approximately 52% of the business receipts went for the cost of sales and operations.

For farms marketing between $200,000, but less than $500,000 and for farms marketing $500,000 to $1 million, cost of production as a percentage of business receipts averaged 67% and 78% respectively.

Despite these figures the small and medium-size farmer has in recent years been caught in a vicious cost/price squeeze caused by a low net income coupled with even lower purchasing power. Efforts to increase farm size, expand production and seek off-farm income have benefitted a relatively few farmers.

The large diversified and frequently vertically integrated corporation, however, with its relative easy access to credit, tax advantages and ability to expand its production value has managed to gain a dominant role in agricultural sales.

This increased capitalization of land and non-land resources by America's largest farmers is a primary reason why over one-third of the total sales can be produced on less than one-seventh of the land.

Economic Concentration

Today the smallest 50% of our farms have less that 5% of the sales, while the largest 5% collect nearly 50% of the market.

If the 1969-1974 national trend of more than 1000 farms going out of business each week continues, by 1986 fewer than 177,000 farms will be producing 90% of America's total agricultural output. These comparatively few farms will also receive almost two-thirds of all government farm program payments.

It is important that we recognize some of the major factors which are contributing to this concentration of farms. While food prices in the past seven years have increased nearly 80%, net farm income, expressed in real purchasing power, was 40% lower in 1978 than 1973.

Meanwhile, farm production costs have in the 1967-1979 period been increasing dramatically:

Fertilizer	Up 80%
Feeds	Up 104%
Seed	Up 150%
Gasoline	Up 125%
Gas & Electricity	Up 134%
Machinery & Equip.	Up 120%
Pesticides	Up 250%
Farm Drugs	Up 85%

Whether borrowing money from the bank, buying seed and agricultural chemicals or purchasing farm machihery, the market for the farmer is limited and dominated by a few large major corporations.

In farm financing the 50 top banks in the United States had $4.74 billion in agricultural loans outstanding at the end of December, 1977. Just ten of these banks, however, accounted for 58% of this total while five California banks, including the top four on the list, were responsible for 42% of these agricultural loans.

The $3.5 billion seed industry is largely controlled by two firms, DeKalb AgResearch and Pioneer Hi-Bred International, which supply more than half of all the hybrid seeds sold.

The concentration in the oil and chemical industry is well known to both urban and rural Americans.

Tractors are essential to most farmers, but their choice of brands is restricted by Deere & Co. and International Harvester, whose share of the U.S. tractor market is 57% followed by Massey Ferguson and Ford Motor Co., which account for another 26% of the market.

Because this farm machinery market is so tightly concentrated a 1972 Federal Trade Commission (FTC) study determined that farmers were paying $251.1 million in monopoly overcharges.

Marian Lenzen, the wife of a Nebraska farmer with 800 acres, evaluates these figures:

> "That's what agribusiness efficiency does for farmers. It busts the small operators and forces them into the cities and it increasingly consolidates the production, processing and distribution of food in this country into the hands of a few big multinational corporations.
>
> "Big business and big government now own or directly control all the resources and means of production in the world. The only holdout against complete corporate takeover is the family farmer."

A Look At Two Bills

S. 334 and H.R. 1045 are somewhat similar in intent and general language. Where they differ radically is in Section 8A.

S. 334 declares that "no person engaged in commerce (or affecting commerce) in a business other than farming, whose non-farming business assets exceed $15,000,000, shall control, or attempt to control, directly or indirectly, the production of raw farm products through ownership or long-term leasing of agricultural land."

H.R. 1045 says non-farm assets shall not exceed $3 million.

The House bill in Section 8A (c)(2) also requires any person or corporation which does not satisfy the prior stated criteria must divest within five years after the date of enactment. S. 334 contains no such divesture section.

It is this lack of a divesture clause and the $15 million cutoff figure which makes S. 334 in its present form an inferior piece of legislation to H.R. 1045. However, in the legislative process, if in fact these two bills ever do receive serious consideration by Congress, bargaining and compromise could substantially change both bills.

For this reason a large measure of research, education and persuasive argument is needed in the weeks and months ahead if this legislation is to truly benefit farmers, workers and consumers.

Saving the Family Farm System

As I've attempted to show throughout this background report I do not believe we have done a very good job either at the governmental policy level or in the marketplace toward saving, let alone promoting or encouraging, the family farm system in American agriculture.

That it is certainly worth perserving from the economic as well as the social and environmental perspective I have no doubt.

I believe as we go about attempting to pass effective family farm antitrust legislation it is essential that we also educate the people in both urban and rural America as to how their self-interests can best be served by this legislation.

To convert this legislation into an effective law while at the same time making it a decisive national educational tool we need a strong bill which will squarely confront the issues discussed here. A weak bill in the long run would only compound and accelerate the corporate invasion of agriculture.

$15 Million?

The figure of $15 million as a point of demarcation for defining entry into agriculture is far too high. Allowing that kind of capital into farming would play directly into the hands of those policy makers discussed earlier who seek to stabilize the farm labor force by subsidizing them with an off-farm income rather than allowing the farmers to support themselves through a competitive and fair marketplace.

In some agricultural areas of this country, like New England for example, a farmer with $15 million in nonagricultural assets would be in a dominant position and a potential threat to the efficient operation of a genuine family farm system.

Divestiture

Without a divestiture clause in this legislation we would see a corporate agribusiness land rush that would make the famous Oklahoma rush look like a quiet afternoon stroll in the town park.

Also, without such a clause this legislation would get so bogged down during its journey through Congress between the haves and have nots that the whole bill could well be scuttled before it ever reached a floor vote.

Such a divestiture clause may not be as controversial as it first appears. Large corporate ownership of agricultural land is generally found in the Western United States and in many cases is land receiving federal reclamation project water. The enforcement of the law concerning that water would automatically make thousands of acres available for new family farms.

This is why I said earlier passage of legislation such as the Reclamation Lands Opportunity Act and the Family Farm Development Act are part of the same package as the Family Farm Antitrust Act of 1979.

Conclusion

Several weeks ago David Raphael, acting executive director of Rural America Inc.,spoke to a number of U.S. Senators about how the quality of rural life in this country must be seen as central to our future policies.

What he said in part, I believe, is appropriate for our consideration as we promote family farm antitrust legislation.

> "The enemy of rural life is concentration of power not only in agriculture but in industry and trade as well --- a concentration that looks only at the benefits to the corporate unit in market terms and fails to consider the human and social costs with which those market profits may be purchased."

96TH CONGRESS
2D SESSION

H. R. 7822

To amend the Clayton Act to provide for additional regulation of certain anticompetitive developments in the agricultural industry.

IN THE HOUSE OF REPRESENTATIVES

JULY 24, 1980

Mr. KASTENMEIER (for himself, Mr. BALDUS, Mr. HARKIN, Mr. NOLAN, Mr. BROWN of California, and Mr. JEFFORDS) introduced the following bill; which was referred to the Committee on the Judiciary

---

A BILL

To amend the Clayton Act to provide for additional regulation of certain anticompetitive developments in the agricultural industry.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Family Farm Antitrust Act of 1980".

FINDINGS; DECLARATION OF POLICY

SEC. 2. (a) The Congress finds that—

(1) in order to nurture the private enterprise system, it is desirable to protect consumers and small businesses, and to provide for the continued existence of the family farm, by protecting family farms against the monopolization of the agricultural industry;

(2) vertical integration of the agricultural industry by corporations engaged in the processing, distributing, and retail industries, and other conglomerate corporations, tends to create monopolies in the agricultural industry, to foster anticompetitive trade practices in that industry, and to produce unfair competition for family farms; and

(3) the anticompetitive forces at work within the agricultural industry, by threatening the existence of the family farm, are causing population shifts from rural areas to urban areas which rob the rural areas of productive population and increase the problems of already overcrowded urban areas.

(b) The Congress declares that it is the policy of the United States, and the purpose of this Act, to restore competition to the agricultural industry and to provide for the continued existence of the family farm.

AMENDMENT OF THE CLAYTON ACT

SEC. 3. (a) The Clayton Act (15 U.S.C. 12 et seq.) is amended by inserting after section 8 the following new section:

"SEC. 8A. (a) Except as provided in subsection (b), no person engaged in commerce (or affecting commerce) in a business other than farming, whose nonfarming business assets exceed $5,000,000, shall—

"(1) engage, directly, or indirectly, in farming or the production of agricultural products,

"(2) control, or attempt to control, agricultural production through the ownership or leasing of land for agricultural purposes, or

"(3) participate in farming through corporate integration or merger, or by any other means of acquisition or control of another person who is engaged in farming.

"(b) The provisions of subsection (a) shall not apply to—

"(1) any organization described in section 501 (c) or (d) of the Internal Revenue Code of 1954 and exempt from tax under section 501(a) of such Code to the extent that the farming activities of that organization do not result in unrelated business income taxable under part III of subchapter F of chapter 1 of such Code; or

"(2) any farmer owned and controlled cooperative, corporation, or association which is—

"(A) an association described in the first section of the Act entitled 'An Act to authorize association of producers of agricultural products', approved February 18, 1922 (commonly known as the Capper-Volstead Act) (7 U.S.C. 291) and meets the requirements of such section; or

"(B) a cooperative association, as defined in section 15(a) of the Agricultural Marketing Act (12 U.S.C. 1141j(a)).

"(c)(1) Subject to paragraph (2), any activity engaged in, or interest owned, during the five-year period beginning on the date of the enactment of this Act by a person to whom subsection (a) applies which would (but for the provisions of this subsection) be in violation of subsection (a) shall not be considered in violation of such subsection for such five-year period if such activity or interest is a continuation by such person of an activity engaged in, or interest held, by such person immediately before the date of the enactment of this Act and is not increased or expanded during such five-year period.

"(2) Paragraph (1) shall not apply with respect to any activity engaged in, or interest owned, during such five-year period by any such person if, immediately after the end of such five-year period, such person holds any property or other interest in violation of subsection (a).

"(d) It shall not be a violation of the provisions of subsection (a) for any creditor, beneficiary, or intestate successor to acquire, pursuant to forfeiture, devise, or the laws of intestate succession, and hold for not more than two years any property or other interest, which acquisition and holding would violate such provisions but for this subsection.

"(e) Any person who knowingly violates any provision of subsection (a) shall be subject to a civil penalty not exceeding the greater of—

"(1) twice the amount of the income from agricultural production received by such person, directly or indirectly, which is attributable to such violation; or

"(2) the sum of the amounts for the calendar years during which such violation occurs or continues, each of which amounts is equal to, for each such calendar year, $2,000 times the number of acres of land with respect to which such violation occurs or continues during such calendar year.

Such penalty shall accrue to the United States and may be recovered in a civil action brought by the United States.

"(f) The Secretary of Agriculture shall from time to time submit to each House of the Congress any recommendation for adjustment of the monetary amount set forth in subsection

(a) which the Secretary determines necessary, taking into account changes in economic conditions, to carry out effectively the purposes of this section.".

(b) Section 11 of the Clayton Act (15 U.S.C. 21) is amended by—

(1) by striking out "sections 2, 3, 7, and 8" in subsections (a) and (b) and inserting in lieu thereof "sections 2, 3, 7, 8, and 8A"; and

(2) by striking out "sections 7 and 8" in subsection (b) and inserting in lieu thereof "sections 7, 8, and 8A".

ASSISTANCE OF THE SECRETARY OF AGRICULTURE

SEC. 4. (a) The Secretary of Agriculture, acting through the Farmers Home Administration, is authorized and directed to acquire at fair market value any property or interest of which a person is required to divest himself under subsection (c) or (d) of section 8A of the Clayton Act, as amended by this Act, if that person establishes to the satisfaction of the Secretary that he is otherwise unable to divest himself of such property or interest in accordance with requirements of that subsection.

(b) The Secretary shall sell at the then prevailing market value any property acquired under subsection (a) as soon as practicable, but in no event later than two years after the date on which such property was acquired by him under that subsection.

(c) The Secretary shall prescibe such rules and regulations as may be necessary to carry out the provisions of this section.

(d) There are authorized to be appropriated to the Department of Agriculture such sums as may be necessary to carry out the provisions of this section.

○

CHAPTER 172C. CORPORATE OR PARTNERSHIP FARMING [NEW]

Sec.
172C.1 Definitions.
172C.2 Prohibited operations.
172C.3 Penalties for prohibited operation—injunctive relief.
172C.4 Temporary restriction on increase of holdings.
172C.5 Reports by corporations.
172C.6 Reporting by limited partnerships.
172C.7 Reports by fiduciaries.
Sec.
172C.8 Reports by beneficiaries.
172C.9 Report by processors.
172C.10 Signing reports.
172C.11 Penalties—reports.
172C.12 County assessor's report.
172C.13 County recorder's report.
172C.14 Duties of secretary of state—legislative use.
172C.15 Additional information.

Iowa Administrative Code
Forms of annual agricultural Reports, Secretary of State, 750-12.1(66 GA, HF215) et seq. IAC.

172C.1 Definitions

For the purposes of this chapter:

1. "Corporation" means a domestic or foreign corporation and includes a nonprofit corporation and cooperatives.

2. "Limited partnership" means a partnership as defined in chapter 545 which owns or leases agricultural land or is engaged in farming.

3. "Processor" means a person, firm, corporation, or limited partnership, which alone or in conjunction with others, directly or indirectly controls the manufacturing, processing or preparation for sale of beef or pork products having a total annual wholesale value of ten million dollars or more. Any person, firm, corporation or limited partner with a ten percent or greater interest in another person, firm, corporation, or limited partnership involved in the manufacturing, processing or preparation for sale of beef or pork products having a total annual wholesale value of ten million dollars or more shall also be considered a processor.

4. "Feedlot" means a lot, yard, corral, or other area in which hogs or cattle fed for slaughter are confined. The term includes areas which are used for the raising of crops or other vegetation and upon which hogs or cattle fed for slaughter are allowed to graze or feed.

5. "Agricultural land" means land suitable for use in farming.

6. "Farming" means the cultivation of land for the production of agricultural crops, the raising of poultry, the production of eggs, the production of milk, the production of fruit or other horticultural crops, grazing or the production of livestock. Farming shall not include the production of timber, forest products, nursery products, or sod, and farming shall not include a contract where a processor or distributor of farm products or supplies provides spraying, harvesting or other farm services.

7. "Fiduciary capacity" means an undertaking to act as executor, administrator, personal representative, guardian, conservator or receiver.

8. "Family farm corporation" means a corporation:

a. Founded for the purpose of farming and the ownership of agricultural land in which the majority of the voting stock is held by and the majority of the stockholders are persons related to each other as spouse, parent, grandparent, lineal ascendents of grandparents or their spouses and other lineal descendents of the grandparents or their spouses, or persons acting in a fiduciary capacity for persons so related;

b. All of its stockholders are natural persons or persons acting in a fiduciary capacity for the benefit of natural persons; and

c. Sixty percent of the gross revenues of the corporation over the last consecutive three-year period comes from farming.

9. "Authorized farm corporation" means a corporation other than a family farm corporation founded for the purpose of farming and the ownership of agricultural land in which:

a. The stockholders do not exceed twenty-five in number; and

b. The stockholders are all natural persons or persons acting in a fiduciary capacity for the benefit of natural persons or nonprofit corporations.

10. "Trust" means a fiduciary relationship with respect to property, subjecting the person by whom the property is held to equitable duties to deal with the property for the benefit of another person, which arises as a result of a manifestation of an intention to create it. Trust does not include a person acting in a fiduciary capacity, as defined in subsection 7. A trust includes a legal entity holding property as trustee, agent, escrow agent, attorney-in-fact, and in any similar capacity.

11. "Family trust" means a trust:

a. In which a majority interest in the trust is held by and the majority of the beneficiaries are persons related to each other as spouse, parent, grandparent, lineal descendants of grandparents or their spouses and other lineal descendants of the grandparents or their spouses, or persons acting in a fiduciary capacity for persons so related; and

b. In which all the beneficiaries are natural persons, who are not acting as a trustee or in a similar capacity for a trust, as defined in subsection 10 of this section, or persons acting in a fiduciary capacity, or nonprofit corporations.

12. "Authorized trust" means a trust other than a family trust in which:

a. The beneficiaries do not exceed twenty-five in number; and

b. The beneficiaries are all natural persons, who are not acting as a trustee or in a similar capacity for a trust as defined in subsection 10 of this section, or persons acting in a fiduciary capacity, or nonprofit corporations; and

c. Its income is not exempt from taxation under the laws of either the United States or the state of Iowa.

13. "Testamentary trust" means a trust created by devising or bequeathing property in trust in a will as such terms are used in the Iowa probate code.

14. "Nonprofit corporation" means:

a. Corporations organized under the provisions of chapter 504 or 504A; or

b. Corporations which qualify under Title 26, section 501, "c" 3 of the United States Code.

15. "Actively engaged in farming" means that a natural person who is a shareholder and an officer, director or employee of the corporation either:

a. Inspects the production activities periodically and furnishes at least half of the value of the tools and pays at least half the direct cost of production; or

b. Regularly and frequently makes or takes an important part in making management decisions substantially contributing to or affecting the success of the farm operation; or

c. Performs physical work which significantly contributes to crop or livestock production.

16. "Nonresident alien" means:

a. An individual who is not a citizen of the United States and who is not domiciled in the United States.

b. A corporation incorporated under the law of any foreign country.

c. A corporation organized in the United States, beneficial ownership of which is held, directly or indirectly, by nonresident alien individuals.

d. A trust organized in the United States or elsewhere if beneficial ownership is held, directly or indirectly, by nonresident alien individuals.

e. A partnership or limited partnership organized in the United States or elsewhere if beneficial ownership is held, directly or indirectly, by nonresident alien individuals.

17. The term "beneficial ownership" includes interests held by a nonresident alien individual directly or indirectly holding or acquiring a ten percent or greater share in the partnership, limited partnership, corporation or trust, or

directly or indirectly through two or more such entities. In addition, the term beneficial ownership shall include interests held by all nonresident alien individuals if the nonresident alien individuals in the aggregate directly or indirectly hold or acquire twenty-five percent or more of the partnership, limited partnership, corporation or trust.

Acts 1975 (66 G.A.) ch. 133, § 1, eff. Aug. 15, 1975; Acts 1977 (67 G.A.) ch. 82, §§ 1, 2; Acts 1978 (67 G.A.) ch. 1079, § 1.

Title of Act:

An Act prohibiting any processor or limited partnership with certain exceptions from owning, controlling or operating a feedlot in Iowa, providing for divestment of prohibited operations, providing a moratorium on acquisition of agricultural land by certain corporations, requiring reports from corporations, limited partnerships, fiduciaries, nonresident aliens and nonresident alien corporations, and providing penalties. Acts 1975 (66 G.A.) ch. 133, eff. Aug. 15, 1975.

1977 Amendment: Rewrote subsections 1 and 7 which prior thereto provided:

"1. 'Corporation' means a domestic or foreign corporation as defined in chapters 491, 496A, 497, 498, 499, 504, 504A which owns or leases agricultural land or is engaged in farming.

"7. 'Fiduciary capacity' means an undertaking to act alone or jointly as trustee, executor, administrator, personal representative, agent, guardian, conservator, receiver, escrow agent, attorney-in-fact, and any other similar capacity.". It also added subsecs. 10 to 14.

1978 Amendment. Added new subsections defining "Actively engaged in farming", "Nonresident alien" and "beneficial ownership".

Library References

Corporations ⇨370 et seq.
C.J.S. Corporations § 941 et seq.

1. In general

Corporations as defined in this section can acquire agricultural lands during the moratorium period established by § 172C.4 for purpose of constructing and operating a research and development farm to improve, research and develop superior genetic seed swine but may not acquire such lands for possible future expansion. Op.Atty.Gen. (Redmond), July 14, 1977.

172C.2 Prohibited operations

In order to preserve free and private enterprise, prevent monopoly, and protect consumers, it is unlawful for any processor of beef or pork or limited partnership in which a processor holds partnership shares as a general partner or partnership shares as a limited partner, to own, control, or operate a feedlot in Iowa in which hogs or cattle are fed for slaughter. However, this section shall not preclude a processor or limited partnership from contracting for the purchase or feeding of hogs or cattle, provided that where the contract sets a date for delivery which is more than twenty days after the making of the contract it shall:

1. Specify a calendar day for delivery of the livestock; or

2. Specify the month for the delivery, and shall allow the farmer to set the week for the delivery within such month and the processor or limited partnership to set the date for delivery within such week. This section shall not prevent processors or educational institutions from carrying on legitimate research, educational, or demonstration activities, nor shall it prevent processors from owning and operating facilities to provide normal care and feeding of animals for a period not to exceed ten days immediately prior to slaughter, or for a longer period in an emergency. Any processor or limited partnership which owns, controls, or operates a feedlot on August 15, 1975 shall have until July 1, 1985 to dispose of the property.

Acts 1975 (66 G.A.) ch. 133, § 2, eff. Aug. 15, 1975.

Library References

Corporations ⇨370(1).
C.J.S. Corporations § 941.

172C.3 Penalties for prohibited operation—Injunctive relief

Any processor violating the provisions of section 172C.2 shall, upon conviction, be punished by a fine of not more than fifty thousand dollars. The courts of this state may prevent and restrain violations of this chapter through the issuance of an injunction. The attorney general or a county attorney shall institute suits on behalf of the state to prevent and restrain violations of this Act.

Acts 1975 (66 G.A.) ch. 133, § 3, eff. Aug. 15, 1975.

Library References

Injunction ⇨89(5).
C.J.S. Injunctions § 123 et seq.

172C.4 Restriction on increase of holdings

No corporation or trust, other than a family farm corporation, authorized farm corporation, family trust, authorized trust or testamentary trust shall, either directly or indirectly, acquire or otherwise obtain or lease any agricultural land in this state. However, the restrictions provided in this section shall not apply to the following:

1. A bona fide encumbrance taken for purposes of security.

2. Agricultural land acquired by a corporation for research or experimental purposes, if the commercial sales from such agricultural land are incidental to the research or experimental objectives of the corporation, and agricultural land acquired for the purpose of testing, developing or producing seeds, animals, or plants for sale or resale to farmers or for purposes incidental to those purposes.

Commercial sales are incidental to the research or experimental objectives of the corporation when they are less than twenty-five percent of the gross sales of the primary product of the research. The limitation provided in this subsection shall not apply to corporations referred to in subsection 3.

3. Agricultural land, including leasehold interests, acquired by a nonprofit corporation organized under the provisions of chapters 504 and 504A including land acquired and operated by or for a state university for research, experimental, demonstration, foundation seed increase or test purposes and land acquired and operated by or for nonprofit corporations organized specifically for research, experimental, demonstration, foundation seed increase or test purposes in support of or in conjunction with a state university.

4. Agricultural land acquired by a corporation for immediate or potential use in nonfarming purposes.

5. Agricultural land acquired by a corporation by process of law in the collection of debts, or pursuant to a contract for deed executed prior to August 15, 1975, or by any procedure for the enforcement of a lien or claim thereon, whether created by mortgage or otherwise.

6. A municipal corporation.

7. Agricultural land which is acquired by a trust company or bank in a fiduciary capacity or as trustee for a family trust, authorized trust or testamentary trust or for nonprofit corporations.

8. A corporation or its subsidiary organized under chapter 491 and to which section 312.8 is applicable.

9. Agricultural land held or leased by a corporation on July 1, 1975, as long as the corporation holding or leasing the land on this date continues to hold or lease such agricultural land.

10. Agricultural land held or leased by a trust on July 1, 1977, as long as the trust holding or leasing such land on this date continues to hold or lease such agricultural land.

11. Agricultural land acquired by a trust for immediate use in nonfarming purposes.

12. Any corporation or trust, other than a family farm corporation, authorized farm corporation, family trust, authorized trust or testamentary trust, violating the provisions of this section shall upon conviction, be punished by a fine of not more than fifty thousand dollars and shall divest itself of any land acquired in violation of this section within one year after conviction. The courts of this state may prevent and restrain violations of this section through the issuance of an injunction. The attorney general or a county attorney shall institute suits on behalf of the state to prevent and restrain violations of this section.

Acts 1975 (66 G.A.) ch. 133, § 4, eff. Aug. 15, 1975. Amended by Acts 1976 (66 G.A.) ch. 1120, § 1; Acts 1977 (67 G.A.) ch. 82, §§ 3 to 6; Acts 1978 (67 G.A.) ch. 1070, §§ 2 to 4; Acts 1979 (68 G.A.) ch. 47, § 1, eff. Jan. 1, 1980.

Acts 1979 (68 G.A.) ch. 47, § 4, provided: "This Act is effective January first following its enactment."

1976 Amendment: Changed in renumbered paragraph one "one year" to "three years".

1977 Amendment: Rewrote unnumbered paragraph 1 which prior thereto read as follows: "For a period of three years from the effective date of this Act no corporation, other than a family farm corporation or an authorized farm corporation shall, either directly or indirectly, acquire or otherwise obtain or lease any additional agricultural land in this state. However, the restrictions provided in this section shall not apply to the following:"; deleted from subsection 3 the words, "organized under the provisions of chapters 504 and 504A"; added new subsections 9 and 10; rewrote subsection 7 which prior thereto provided: "7. Agricultural land which is acquired by a trust company or bank in a fiduciary capacity for the benefit of natural persons or nonprofit corporations."

1978 Amendment. Added a new paragraph to subsection 2 relating to commercial sales; added new subsections 11 and 12; rewrote subsection 3 which prior thereto provided: "Agricultural land acquired by a nonprofit corporation".

1979 Amendment: Deleted the temporary aspect of the restriction on increase of holdings and added various trusts in subsection 12.

Library References

Corporations ⚷436.
C.J.S. Corporations § 1090.

1. In general

Corporations as defined in § 172C.1 can acquire agricultural lands during the moratorium period established by this section for purpose of constructing and operating a research and development farm to improve, research and develop superior genetic seed swine but may not acquire such lands for possible future expansion. Op.Atty.Gen. (Redmond), July 14, 1977.

172C.5 Reports by corporations

All corporations which own or lease agricultural land in the state of Iowa, or which own or lease any land on which poultry or livestock are confined for feeding or other purposes for ten days or more, or which contract for keeping and feeding poultry or livestock, or which contract for the growing of agricultural crops, fruits or other horticultural products in the state of Iowa, shall file with their annual report, on forms approved pursuant to the provisions of chapter 17A and supplied by the secretary of state, the following information, unless otherwise provided:

1. Declaration of the type of agricultural activity engaged in by the reporting corporation and the name, address and title of the agent or person in charge of the corporation's daily operations.

2. The acreage and location listed by township and county, or legally described urban plat of each lot or parcel of agricultural land in this state owned or leased by the corporation at the end of the preceding fiscal or calendar year.

3. The approximate number and kind of poultry or livestock owned, contracted for, fed or kept by the corporation during the preceding calendar or fiscal year.

4. The approximate number of acres used for each agricultural crop, fruit or other horticultural product grown or contracted for during the preceding calendar or fiscal year.

5. The number of acres owned and operated by the corporation, the number of acres leased by the corporation, and the number of acres leased to the corporation. If a livestock or crop-share lease, the corporation shall disclose the share of the livestock or the crop to which the corporation is entitled under the lease.

6. In the case of a corporation holding agricultural land for immediate or potential use in nonfarming purposes, a statement specifying for what purpose such land is being held.

7. The names and addresses of, and the number of shares of stock by class held by, all shareholders owning ten percent or more of any class of stock of the corporation.

8. The name, address, residence, citizenship of, and number of shares of each class held by any nonresident alien shareholder holding five percent or more of any class of stock of the corporation.

9. Whether the corporation is a family farm corporation as defined in section 172C.1. If a family farm corporation, the number of shares held by persons residing on or actively engaged in farming.

10. Whether the corporation is an authorized farm corporation as defined in section 172C.1. If an authorized farm corporation, the number of shares held by persons residing on or actively engaged in farming.

This section shall not apply to land held for the purpose of railroad or highway rights-of-way, nor shall it apply to lots within city limits which are smaller than twenty acres.

The annual report from any corporation owning agricultural land in Iowa used for research, testing or experimental purposes or held for the potential expansion of its physical facilities shall include only the information required by subsections 1 to 6.

Corporations organized under chapter 504, shall file only the additional report required by this section.

Acts 1975 (66 G.A.) ch. 135, § 5, eff. Aug. 15, 1975; Amended by Acts 1977 (67 G.A.) ch. 82 § 7; Acts 1978 (67 G.A.) ch. 1079, § 5.

1977 Amendment: Deleted from unnumbered paragraph 1, the words, "except where the corporation is acting in a fiduciary capacity" following "All corporations".

1978 Amendment. Required name, address and title in subsection 1.

Iowa Administrative Code
Forms of Annual Agricultural Reports, Secretary of State, 750-12.1(66 GA, HF215) et seq. IAC.

Library References
Injunction 🔑39.
C.J.S. Injunctions § 72.

172C.6 Reporting by limited partnerships

Each limited partnership owning or leasing agricultural land or engaged in farming shall file with the secretary of state on or before March thirty-first of each year on forms approved pursuant to the provisions of chapter 17A and supplied by the secretary of state an annual report setting forth the following:

1. The name of the limited partnership, and the term for which the partnership is to exist.

2. Declaration of the type of agricultural activity engaged in by the reporting limited partnership and the name, address and title of the agent or person in charge of the limited partnership's daily operations.

3. The acreage and location listed by township and county, or legally described urban plat, of each lot or parcel of agricultural land in this state owned or leased by the limited partnership at the end of the preceding calendar or fiscal year.

4. The approximate number and kind of poultry or livestock owned, contracted for, fed or kept by the limited partnership during the preceding calendar or fiscal year.

5. The approximate number of acres used for each agricultural crop, fruit or other horticultural product grown or contracted for during the preceding calendar or fiscal year.

6. The number of acres owned and operated by the limited partnership, the number of acres leased by the limited partnership, and the number of acres leased to the limited partnership. If a livestock or crop-share lease, the limited partnership shall disclose the share of the livestock or the crop to which the limited partnership is entitled under the lease.

7. The name and place of residence and principal occupation of each member of the limited partnership, general and limited partners being respectively designated and, if a nonresident alien partner, his or her citizenship.

8. The amount of cash and a description of and the agreed value of the other property contributed by each limited partner.

9. The share of the profits or the other compensation by way of income which each limited partner shall receive by reason of the limited partner's contribution.

10. The amount of cash and a description of and the agreed value of the other property contributed by each limited partner during the preceding fiscal or calendar year.

Acts 1975 (66 G.A.) ch. 133, § 6, eff. Aug. 15, 1975; Acts 1978 (67 G.A.) ch. 1079, § 6.

1978 Amendment. Required name, address and title in subsection 2.

Iowa Administrative Code
Forms of Annual Agricultural Reports, Secretary of State, 750-12.1(66 GA, HF215) et seq. IAC.

Library References
Partnership 🔑351½.
C.J.S. Partnership §§ 450, 463.

172C.7 Reports by fiduciaries

Every person acting in a fiduciary capacity or as a trustee on behalf of any corporation, limited partnership or nonresident alien, who holds agricultural land in this state outside the corporate limits of any city, shall file with the secretary of state on or before January 31 of each year a report as follows:

1. If acting in a fiduciary capacity or as a trustee for a corporation:

a. The name and address of the corporation.

b. The name and address of the corporation's registered agent or agents, if any, in this state.

c. The acreage and location of the land owned in such fiduciary or trustee capacity listed by township and county on December 31 of the year reported.

2. If acting in a fiduciary capacity or as a trustee for a limited partnership:

a. The name and address of the partnership.

b. The name and place of residence of each member, general and limited partners being respectively designated.

c. The acreage and location of the land owned in such fiduciary or trustee capacity listed by township and county on December 31 of the year reported.

3. If acting in a fiduciary capacity or as a trustee for a nonresident alien:

a. The name, address, residence and citizenship of the nonresident alien.

b. The acreage and location of the land owned in such fiduciary or trustee capacity listed by township and county on December 31 of the year reported.

Acts 1975 (66 G.A.) ch. 133, § 8, eff. Aug. 15, 1975. Amended by Acts 1977 (67 G.A.) ch. 82, §§ 8 to 14; Acts 1979 (68 G.A.) ch. 47, § 2, eff. Jan. 1, 1980.

Acts 1979 (68 G.A.) ch. 47, § 4, provided: "This Act is effective January first following its enactment."

1977 Amendment: Added trustee throughout the section.

1979 Amendment: Deleted "individual" following alien in unnumbered paragraph 1.

Library References

Animals 🔑22.
C.J.S. Animals §§ 46 to 50, 56 et seq.

172C.8 Reports by beneficiaries

1. Any corporation identified as a beneficiary in a report filed with the secretary of state pursuant to section 172C.7, subsection 1, shall file with the secretary of state on or before March 31 of each year, on forms supplied by the secretary of state, a report containing the information set forth in section 172C.5, with respect to land owned by a fiduciary or trustee on behalf of the corporation.

2. Any limited partnership identified as a beneficiary in a report filed with the secretary of state pursuant to section 172C.7, subsection 2, shall file with the secretary of state on or before March 31 of each year, on forms supplied by the secretary of state, a report containing the information set forth in section 172C.6, with respect to land owned by a fiduciary or trustee on behalf of the limited partnership.

3. Any nonresident alien identified as a beneficiary in a report filed with the secretary of state pursuant to section 172C.7, subsection 3, shall file with the secretary of state on or before March 31 of each year on forms supplied by the secretary of state, a report containing the information set forth in section 567.9, with respect to land owned by a fiduciary or trustee on behalf of the nonresident alien.

Acts 1975 (66 G.A.) ch. 133, § 9, eff. Aug. 15, 1975. Amended by Acts 1977 (67 G.A.) ch. 82, § 15.

1977 Amendment: Added "or trustee" throughout the section.

Library References

Animals 🔑22.
C.J.S. Animals §§ 46 to 50, 56 et seq.

172C.9 Report by processors

Any processor of beef or pork in this state shall file with the secretary of state on or before March 31 of each year, a report setting forth:

1. The number of hogs and the number of cattle owned and fed more than thirty days by the processor in Iowa during the preceding calendar or fiscal year.

2. The total number of hogs and the total number of cattle owned and fed more than thirty days by the processor during the preceding calendar year.

3. The number of hogs and the number of cattle slaughtered in Iowa by the processor during the preceding calendar or fiscal year.

4. The total number of hogs and the total number of cattle slaughtered by the processor during the preceding calendar or fiscal year.

Acts 1975 (66 G.A.) ch. 133, § 10, eff. Aug. 15, 1975.

172C.10 Signing reports

Reports by corporations shall be signed by the president or other officer or authorized representative. Reports by limited partnerships shall be signed by the president or other authorized representative of the partnership. Reports by individuals shall be signed by the individual or an authorized representative.

Acts 1975 (66 G.A.) ch. 133, § 11, eff. Aug. 15, 1975.

172C.11 Penalties—reports

Failure to timely file a report or the filing of false information is punishable by a civil penalty not to exceed one thousand dollars.

For purposes of this section a report is timely filed if the report is filed prior to May first of the year in which it is required to be filed.

The secretary of state shall notify a person who the secretary has reason to believe is required to file a report as provided by this chapter and who has not filed a timely report, that the person may be in violation of this section. After thirty days from receipt of the notice, any person required to report under this chapter who has not filed, shall be assessed a civil penalty of one hundred dollars for each day in which the report is not filed. The secretary of state shall include in the notice, a statement of the penalty which will be assessed if the report is required and is not filed within thirty days. This penalty shall be in addition to any other penalty under this chapter. The secretary of state shall notify the state attorney general, when the secretary of state has reason to believe a violation of this chapter has occurred.

Acts 1975 (66 G.A.) ch. 133, § 12, Aug. 15, 1975. Amended by Acts 1978 (67 G.A.) ch. 1029, § 18; Acts 1978 (67 G.A.) ch. 1079, § 7; Acts 1979 (68 G.A.) ch. 47, § 3, eff. Jan. 1, 1980.

Acts 1979 (68 G.A.) ch. 47, § 4, provided: "This Act is effective January first following its enactment."

1978 Amendments. Rewrote section which prior thereto provided: "Willful failure to file a required report, or the willful filing of false information is a public offense. A person found guilty of violating this section shall be subject to a fine not to exceed one thousand dollars."

1979 Amendment: Substituted civil "penalty" for civil "fine" throughout the section and added the provision requiring the secretary of state to notify the attorney general of violations.

172C.12 County assessor's report

The county assessor shall forward to the secretary of state, by October 1 of each year, the name and address of every corporation, nonresident alien and trust owning agricultural land in the county as shown by the assessment rolls of the county.

Acts 1975 (66 G.A.) ch. 133, § 13, eff. Aug. 15, 1975. Amended by Acts 1977 (67 G.A.) ch. 82, § 16.

1977 Amendment: Deleted "or other business entity" following trust.

172C.13 County recorder's report

The county recorder shall forward to the secretary of state, by December 1 of each year, the names and addresses of each limited partnership owning agricultural land or engaged in farming in the county as shown by county records.

Acts 1975 (66 G.A.) ch. 133, § 14, eff. Aug. 15, 1975.

172C.14 Duties of secretary of state—legislative use

The secretary of state shall do all things necessary to implement this chapter. It is the intent of this section that information shall be made available to members of the general assembly and appropriate committees of the general assembly in order to determine the extent of farming being carried out in this state by corporations and other business entities and the effect of such farming practices upon the economy of this state. The reports of processors required in section 172C.9 shall be confidential reports except as to the general assembly and appropriate committees of the general assembly whose members upon receipt of such reports treat such information as confidential and to the attorney general for review and appropriate action when necessary. The secretary of state shall assist any committee of the general assembly existing or established for the purposes of studying the effects of this chapter and the practices this chapter seeks to study and regulate.

Acts 1975 (66 G.A.) ch. 133, § 15, eff. Aug. 15, 1975; Acts 1978 (67 G.A.) ch. 1079, § 8.

1978 Amendment. Added provision relating to reports of processors.

172C.15 Additional information

The secretary of state shall request additional information as may be necessary or appropriate to enable the secretary of state to administer this chapter.

Acts 1975 (66 G.A.) ch. 133, § 16, eff. Aug. 15, 1975.

Iowa Administrative Code
Forms of Annual Agricultural Reports, Secretary of State, 750-12.1(66 GA, HF215) et seq. IAC.

CHAPTER 172D. LIVESTOCK FEEDLOTS [NEW]

Sec.
172D.1 Definitions.
172D.2 Compliance—A defense to nuisance actions.
172D.3 Compliance with rules of the department.
172D.4 Compliance with zoning requirements.

Provisions constituting chapter 172D, Code 1976, consisting of sections 172D.1 to 172D.4, were enacted by Acts 1976 (66 G.A.) ch. 1121, §§ 1 to 4, effective November 1, 1976.

172D.1 Definitions

As used in this Act, unless the context otherwise requires:

1. "City" means a municipal corporation, but not including a county, township, school district, or any special-purpose district or authority.

2. "Department" means the department of environmental quality and includes any officer or agency within that department.

3. "Established date of operation" means the date on which a feedlot commenced operating with not more livestock than reasonably could be maintained by the physical facilities existing as of that date. If the physical facilities of the feedlot are subsequently expanded, the established date of operation for each expansion is deemed to be a separate and independent "established date of operation" established as of this date of commencement of the expanded operations, and the commencement of expanded operations shall not divest the feedlot of a previously established date of operation.

4. "Established date of ownership" means the date of the recording of an appropriate muniment of title establishing the ownership of realty.

5. "Rule of the department" means a rule as defined in section 17A.2 which materially affects the operation of a feedlot and which has been adopted by the department. The term includes a rule which was in effect prior to July 1, 1975. Except as specifically provided in section 172D.3, subsection 2, paragraph "b", subparagraph (5), and paragraph "c", subparagraph (5), nothing in this chapter shall be deemed to empower the department to make any rule.

The Loss Of Our Family Farms

Inevitable Results
or
Conscious Policies?

A Look at the Origins of Government Policies for Agriculture

The Loss of Our Family Farms

MARK RITCHIE

June 1979

© 1979 Mark Ritchie

Dedicated to the Slough Club, a small group of the millions of farmers and working people who understand that the problems we face today are the result of conscious decisions and strategies, not unfortunate, inevitable, circumstances.

Special thanks to:
Sue Crane
Adele Beccar-Varella
Sunny Victor
Bob Fitch: cover photo

The Loss Of Our Family Farms

Few social issues have received such widespread concern and attention as the "loss of our family farms," and the subsequent destruction of much of our rural society. Concerns range from fears of monopolized food production, (leading to endless price increases and shortages similar to the 'gas crisis'), to seeing that the "urban problems" of unemployment, over-crowding, and strained social services are caused in part by this massive country-to-city migration. Citizens and governmental leaders alike have called for investigation after investigation, new programs and reforms to replace other "new programs" which failed.

Drawing on the research of a variety of public and private institutions, and the actual life experiences of millions of people in both rural and urban areas, a picture of the devastating effects of this "loss of farmers" can be thoroughly documented.

Perhaps of even greater concern is the total failure to mitigate or reverse this trend with the wide range of programs and reforms which have been proposed by our government, colleges, and citizen's organizations. We certainly have a few success stories to point to: a direct-marketing program here, young farmer homesteading legislation there, and even restrictions on corporate ownership in several states, but the overall picture is very disappointing. Measuring these results, many people conclude that our "policies just didn't work," or that we need to gather more documentation on the failures to help develop a "better approach."

The contention of this book *is that the "loss of family farms" is not the unfortunate result of policies which failed, but is in fact the result of carefully developed and successfully implemented policies to eliminate family-farmers.* The seriousness of this allegation, that the destruction of our rural economy was conscious policy, requires both careful explanation and documentation. We have examined a wide variety of documents which recommend public policies for agriculture put forward by groups representing both farm and labor organizations, and finance and industrial corporations. We have summarized or reproduced much of the pertinent information and documents used for this book in an available appendix. (See page 32.)

We will begin with the examination of the 1962 "A statement of National Policy by the Research and Policy Committee of the Committee for Economic Development" entitled *"An Adaptive Program for Agriculture"* (reference 1.).

The Committee for Economic Development, CED, was formed in 1942 by the presidents of several large corporations and economists from the University of Chicago. They were concerned with problems that would be created by the transition to a post World War II economy, especially "mass unemployment."

The social and political unrest of the Depression was still fresh in their memories. They wanted to avoid that challenge to the "free enterprise system" from being repeated.

They brought together corporate presidents with academics to develop policy and program recommendations in a wide variety of fields, ranging from welfare reform, to U.S.-Japanese relationships. They were one of many such groups, including the National Association of Manufacturers, U.S. Chamber of Commerce, American Bankers Association, and the National Planning Association, who issued policy statements on agriculture in the 1950's and 60's. The CED reports were chosen because they are representative of the sentiments expressed by other corporate-interest groups, and because they issued a series of reports, from 1945 until 1974, giving us an historical context to place their recommendations within:

In their own words, they describe themselves on the following pages, from the original report.

The Committee for Economic Development

The Committee for Economic Development is composed of 200 leading businessmen and educators.

CED is devoted to these basic objectives:

1) *To develop, through objective research and discussion, findings and recommendations for business and public policy which will contribute to the preservation and strengthening of our free society, and to the maintenance of high employment, increasing productivity and living standards, greater economic stability and greater opportunity for all our people.*

2) *To bring about increasing public understanding of the importance of these objectives and the ways in which they can be achieved.*

CED's work is supported by voluntary contributions from business and industry. It is nonprofit, nonpartisan and nonpolitical.

The Trustees, who generally are Presidents or Board Chairmen of corporations and Presidents of universities, are chosen for their individual capacities rather than as representatives of any particular interests. They unite scholarship with business judgment and experience in analyzing the issues and developing recommendations to resolve the economic problems that constantly arise in a dynamic and democratic society.

Through this business-academic partnership, CED endeavors to develop policy statements and other research products that commend themselves as guides to public and business policy; for use as texts in college economic and political science courses and in management training courses; for consideration and discussion by newspaper and magazine editors, columnists and commentators, and for distribution abroad to promote better understanding of the American economic system.

CED believes that by enabling businessmen to demonstrate constructively their concern for the general welfare, it is helping business to earn and maintain the national and community respect essential to the successful functioning of the free enterprise capitalist system.

Research and Policy Committee

Chairman
THEODORE O. YNTEMA
Chairman, Finance Committee
Ford Motor Company

Vice Chairmen
THEODORE V. HOUSER, Director
Sears, Roebuck and Co

J. CAMERON THOMSON
Retired Chairman of the Board
Northwest Bancorporation

[1]**FRANK ALTSCHUL**
New York, New York

JERVIS J. BABB
New York, New York

[1]**WILLIAM BENTON**, Chairman of Bd.
Encyclopaedia Britannica, Inc.

MARVIN BOWER, Managing Director
McKinsey & Company, Inc.

W. HAROLD BRENTON, President
Brenton Companies, Inc.

[1]**THOMAS D. CABOT**, Chrm. of Board
Cabot Corporation

PAUL F. CLARK, Chairman of Board
John Hancock Mutual Life Ins. Co.

S. BAYARD COLGATE
New York, New York

[1]**EMILIO G. COLLADO**, Vice President
Standard Oil Company (New Jersey)

JOHN T. CONNOR, President
Merck & Co., Inc.

DONALD K. DAVID, Vice Chairman
The Ford Foundation

NATHANAEL V. DAVIS, President
Aluminium Limited

[1]**EDMUND FITZGERALD**
Milwaukee, Wisconsin

MARION B. FOLSOM
Eastman Kodak Company

[1]**FRED C. FOY**, Chairman
Koppers Company, Inc.

H. J. HEINZ, II, Chairman
H. J. Heinz Company

ROBERT HELLER, Chairman
Robert Heller & Associates, Inc

THEODORE V. HOUSER, Director
Sears, Roebuck and Co.

[1]**FREDERICK R. KAPPEL**, Chairman
American Telephone and Telegraph Co.

ROBERT J. KLEBERG, JR., President
King Ranch, Inc.

RALPH LAZARUS, President
Federated Department Stores, Inc.

[1]**THOMAS B. McCABE**, Chairman
Scott Paper Company

DON G. MITCHELL
New York, New York

ALFRED C. NEAL, President
Committee for Economic Development

NATHANIEL A. OWINGS, Partner
Skidmore, Owings & Merrill

PHILIP D. REED
New York, New York

GEORGE RUSSELL, Executive V. P.
General Motors Corporation

HARRY SCHERMAN, Chmn. of Board
Book-of-the-Month Club, Inc.

GEORGE F. SMITH
Johnson & Johnson

S. ABBOT SMITH, President
Thomas Strahan Co.

[1]**PHILIP SPORN**, Chairman
System Development Committee
American Electric Power Co., Inc.

[1]**ALLAN SPROUL**
Kentfield, California

WILLIAM C. STOLK, Chairman
American Can Company

[1]**J. M. SYMES**, Chairman
The Pennsylvania Railroad Company

WAYNE C. TAYLOR
Washington, D. C.

ALAN H. TEMPLE
New York, New York

[1]**J. CAMERON THOMSON**
Retired Chairman of the Board
Northwest Bancorporation

H. C. TURNER, JR., President
Turner Construction Company

WALTER H. WHEELER, JR., Chairman
Pitney-Bowes, Inc.

FRAZAR B. WILDE, Chairman of the Board
Connecticut General Life Insurance Co.

A. L. WILLIAMS, President
International Business Machines Corp.

WALTER WILLIAMS, Chrm. of Board
Continental, Inc.

THEODORE O. YNTEMA
Chairman, Finance Committee
Ford Motor Company

J. D. ZELLERBACH, Chrm. of Board
Crown Zellerbach Corp.

Agriculture Subcommittee

Chairman
W. HAROLD BRENTON, President
Brenton Companies, Inc.

WALTER R. BIMSON, Chrm. of Board
Valley National Bank

W. HAROLD BRENTON, President
Brenton Companies, Inc.

H. H. COREY, Chairman of the Board
Geo. A. Hormel & Co.

RALPH LAZARUS, President
Federated Department Stores, Inc.

FRANKLIN J. LUNDING
Chairman of the Board
Jewel Tea Co., Inc.

AKSEL NIELSEN, Chairman
The Title Guaranty Company

FRANK A. THEIS, President
Simonds-Shields-Theis Grain Co.

pages tightly bound

The CED report begins with this clear presentation of their view of the problem.

> *"The common characteristic shared by these [agricultural] problems is that, as a result of changes in the economy, the labor and capital employed in the industry cannot all continue to earn, by producing goods for sale in a free market, as much income as they formerly earned, or as much as they could earn if employed in some other use; that is—the industry is using too many resources!"* (Ibid., p. 9).

Using "Too many resources," measured by return on investment, is pin-pointed as the key problem. They see the cause of the "problem" being,

> *"The movement of people from agriculture has not been fast enough to take full advantage of the opportunities that improving farm technologies, thus increasing capital, create"* (Ibid., p. 7).

Thus, having stated the "farm problem" as too low return on investment caused by farmers *not* leaving agriculture fast enough, the CED report goes on to describe "Three Possible Approaches to the Problems of Agriculture" which include a "Laissez-Faire, Protectionist and Adaptive Approach." The last of these is their chosen solution.

> *"The adaptive approach utilizes positive government action to facilitate and promote the movement of labor and capital where they will be most productive and will earn the most income. Essentially this apporach seeks to achieve what the laissez-faire approach would ordinarily expect to achieve but to do it more quickly and with less deep and protracted loss of income to the persons involved that might result if no assistance were given."* (Ibid., p 11)

Their approach to "adapting" agriculture is through the removal of excess "resources" (farmers), to be utilized in other sectors of the economy, to generate "greater return on investment."

They state over and over again, there is a "persistent *excess of resources, particularly labor, in agriculture over the quantities that could have earned, by sale of their product [labor power, ed.] in free markets, incomes equivalent to what similar resources could have earned in other uses.*" (Ibid., p. 19).

Thus having defined the problem, and its causes, they go on to look at why there was this failure of "resources to flow out of farming." They concluded that,

> "*The support of prices has deterred the movement out of agriculture*" (Ibid., p. 23).

Having developed a careful explanation of the cause of the "farm problem" being the support of farm prices, they spell out their solutions.

> "*The Choices Before Us: [a] leakproof control of farm production or [b] a program, such as we are recommending here, to induce excess resources [primarily people] to move rapidly out of agriculture*" (Ibid., p. 25).

The Committee for Economic Development's "Program for Agricultural Adjustment calls for (a) policies and programs to attract excess resources from use in farm production and (b) for measures to cushion the effects of the adjustment on property and people." (Ibid., p. 31). In keeping with their concern that the program be "large-scale, vigorous, and thorough-going," they propose,

> "*If the farm labor force were to be,* five years hence, *no more than two thirds as large as its present size of approximately 5.5 millions, the program would involve moving off the farm about two million of the present farm labor force, plus a number equal to a large part of the new entrants who would otherwise join the farm labor force in the five years*" (Ibid., p. 59). (Emphasis added.)

In spelling out the policies and programs needed to bring about this removal of one-third of the farm population in five years they focus on the primary strategy of *consciously lowering agriculture prices.*

As they explain,

> *"The basic adjustment required to solve the farm problem, adjustment of resources used to produce farm goods [farmers [ed.]] cannot be expected to take place unless the price system is permitted to signal to farmers"* (Ibid., p. 40).

They recommend that

> *" the price supports for wheat, cotton, rice, feed grains and related crops now under price supports be reduced immediately. [$.03/lb-rice, $.22/lb-cotton].*
>
> *"The importance of such price adjustments should not be underestimated. The lower price levels would discourage further commitments of new productive resources to those crops unless it appeared profitable at lower prices"* (Ibid., p. 42).

In addition to the displacement of over two million farmers and their families, the CED saw other "desirable" results from below-parity pricing.

> *"Also, the lower prices would induce some of the increased sales of these products both at home and abroad. Some of these crops are heavily dependent upon export markets.*
>
> *"Finally, these price adjustments would put the United States into position to begin disentangling itself from export subsidies, import quotas, and other inconsistent policies which now surround our foreign trade in these farm products"* (Ibid., p. 42).
>
> *"The effects of the adjustment prices would reach beyond our borders. The adjustment price suggested for cotton would permit our domestic cotton mills to compete on a more even basis with foreign mills, in our markets and in foreign markets. At present, foreign mills can buy United States cotton more cheaply than can our domestic cotton producers. The same would be true of our domestic flour millers and rice exporters.*

"For several reasons it is important that price supports be moved to levels that, if wrong, will be low rather than high.

"First, price supports on the low side will test the market demand for farm products. If this demand turns out to be higher than output at the support level we can meet the needs from our huge stocks.

Second, *new resources* [*especially people*] *should be discouraged from entering agriculture, at least during the adjustment period, and the rate of entry in the longer run should not be excessive. Price supports set too high will tend to continue the errors of recent years*" (Ibid., p. 44).

The corporate presidents and academics who make up the CED recommended the elimination of one-third of the farm population, within five years, by enforcing below parity pricing.

This report seemed to be developed to serve the needs of the industrial, finance, and trade corporations who make up the CED, not the farmers and rural communities who would be displaced or destroyed by their plan. As they stated, the primary benefits of their recommendations would be:

1) Increased return on corporate investment in agriculture

2) Over two million farmers and families entering the urban labor pool, which would tend to depress wages

3) lower prices of agricultural products, which would both increase foreign trade and provide cheaper raw materials for domestic food and fiber processors.

Some of the corporations belonging to the CED who would benefit directly include the following: (partial list)

Bank of America
Geo. A. Hormel & Co.
Anderson, Clayton & Co.
United Fruit Co.
Pillsbury Co.
H.J. Heinz Co.
John Deere & Co.
Swift & Co.
California Packing Co. (now Del Monte)
Oscar Mayer Co.
General Foods
Campbell Soup
American Sugar
Nat. Dairy Products Co.
Jewel Tea Co.
Simonds-Shields-Theis Grain Co.

In addition to serving these strictly economic interests of CED-type corporations, there seem to be many social and cultural changes anticipated. In their *Economic Development* textbook, Gerald Meier and Robert Baldwin capture some sentiments of many corporate planners, like the CED.

> *"Every specific principle of economic change should be considered alongside a specific principle of cultural change. For instance, the economic criteria of investment are alone not sufficient guide for investment policy: they must be supplemented by non-economic criteria. For illustrative purposes, some non-economic criteria for investment might be as follows; . . . invest in projects that break up village life by drawing people to centers of employment away from the village because, by preventing impersonal relations, village life is a major source of opposition to change. Such non-economic considerations may reinforce or contradict economic considerations, but they constitute an essential part in any assessment of the requirements for development."* (p. 357)

They also believe that:

> *"Economic development of sufficient rapidity has not taken place within the present cultural framework. New wants, new motivations, new ways of production, new institutions need to be created if national income is to rise more rapidly. Where there are religious obstacles to modern economic progress, the religion may have to be taken less seriously or its character altered."* (p. 356)

The interest of the vast majority of people, urban as well as rural, seem to be in direct conflict with the interest of CED-type corporations.

SIGNIFICANCE OF THE CED REPORT

Although there were many other "reports, recommendations, and solutions" to the "farm problem" being advocated at this time, the CED's report is quite significant since its authors, research staff, and advisors were the very people making government policy at that time, and who would implement the CED's recommendations during the next 15 years.

The following list of participants is taken from the original report.

Advisors to the Subcommittee

HENRY B. ARTHUR
Graduate School of Business Administration
Harvard University

RICHARD B. HEFLEBOWER
Department of Economics
Northwestern University

DALE B. HATHAWAY
Department of Economics
Michigan State University

THEODORE W. SCHULTZ
Department of Economics
University of Chicago

Research Advisory Board

Chairman
SOLOMON FABRICANT
Director of Research
National Bureau of Economic Research, Inc.

Vice Chairman
R. A. GORDON, Chairman
Department of Economics
University of California (Berkeley)

KENNETH E. BOULDING
Department of Economics
University of Michigan

EMILE DESPRES
Department of Economics
Stanford University

SOLOMON FABRICANT
Director of Research
National Bureau of Economic Research, Inc.

R. A. GORDON, Chairman
Department of Economics
University of California (Berkeley)

FRITZ MACHLUP
Director, International Finance Section
Princeton University

DON K. PRICE
Dean, Graduate School of Public Admin
Harvard University

ALBERT REES
Department of Economics
University of Chicago

PAUL SAMUELSON
Professor of Economics
Massachusetts Institute of Technology

THOMAS C. SCHELLING
Center for International Affairs
Harvard University

T. W. SCHULTZ
Department of Economics
University of Chicago

ELI SHAPIRO
Graduate School of Business Administratio
Harvard University

HENRY WALLICH
Department of Economics
Yale University

Research Staff

HERBERT STEIN, Director

EDWARD F. DENISON
Associate Director

ROBERT Z. ALIBER
JACK BARANSON
LOUGHLIN McHUGH
FRANK O'BRIEN
GREGORY WOLFE

Several of the authors listed are worth looking at a little more closely.

Dale Hathaway—Department of Economics, Michigan State University.

In addition to being a key author of this report, he was the primary spokesperson for CED when they had to appear before the House Agriculture Committee in 1962 to defend their recommendations.

Hathaway served as a member of the President's Council of Economic Advisor's from 1955-56 and 1961-63. He has been an agricultural advisor to the Ford Foundation, and director of the International Food Policy Research Institute since 1975.

He was appointed by Carter as assistant secretary of agriculture for international affairs and commodity programs, where he oversees farm price support programs.

Ag. economists, including Hathaway, from Michigan State are presently working closely with the South Korean Ministry of Agriculture to develop and implement a farm policy designed to "remove excess resources" from agriculture and to move them into the cities. This is to provide additional labor (or create a larger unemployed labor pool) for multinational industries, such as textiles, which are "run-aways" to South Korea.

T.W. Schultz—Department of Economics, University of Chicago.

Chairman of the Research Advisory Board for the CED's 1945 and 1957 agriculture reports, Schultz is a senior figure in Ag. economics and policy planning.

Joseph Barr—Subcommittee member

Barr has served in a wide-variety of government positions, including the Department of Treasury from 1961-69, where he was the Secretary from 1968-69. He is also treasurer of O.L. Barr Grain Co., and a Board member of Control Data Corporation.

Herb Stein—Research Director

Head of Nixon's Council of Economic Advisors, the number one economic policy-making council in the government.

Kenneth Boulding, Dept. of Economics, University of Michigan

Influential agricultural economist, who once wrote:

> **"The only way I know to get toothpaste out of a tube is to squeeze, and the only way to get people out of agriculture is likewise to squeeze agriculture. If the toothpaste is thin, you don't have to squeeze very hard, on the other hand, if the toothpaste is thick, you have to put real pressure on it. If you can't get people out of agriculture easily, you are going to have to do farmers severe injustice in order to solve the problem of allocation."** (reference #3)

Paul Samuelson—Economics, M.I.T.

Often referred to as Mr. Economics, his introductory economics textbook is the classic for all beginning economists. In the 8th edition of the 1945 copywrited book he argues that resources (farmers) should be both forced and attracted out of farming. The book states that the only ultimate solution is to thin out the population of farmers. It points out that commercial farmers would feel pressure to become more efficient (capital intensive, and in debt) and many of the remaining farmers would find their incomes so low that they would go into industry or find part-time jobs off the farm. The really poor farmers would receive welfare aids. It's important to note that this is essentially the overall strategy for agriculture that has been put forward and enforced from 1946 until the present.

How successful were these influential people in getting the CED recommendations implemented? Fortunately we have both the historical record of agriculture, and a follow-up report by the CED in 1974 to determine the actual implementation of their plan.

This 1974 report "A New U.S. Farm Policy for Changing World Needs" (Reference 2) begins with the following evaluation:

> "*The situation of U.S. agriculture has changed drastically within a decade. In 1962, when the Committee issued the policy statement* An Adaptive Program for Agriculture, *the problems of U.S. farming were mainly related to maintaining farm income in the face of continuing surpluses. The diagnosis was that agriculture was using too many resources; fewer farms and farmers could produce all the output then required or even more than could be marketed. As a result of these findings, we prescribed programs for the better use of our resources in agriculture [that], vigorously prosecuted, would enable the people involved in farming to receive higher incomes* without government controls or subsidy. **In general, policies of this nature have been pursued by the U.S. government, with the result described in the present statement: namely, that U.S. agriculture today is a far more efficient, far more productive industry.**" (Ibid., p 8) (emphasis added).

Their evaluation was that their past analysis and recommendations were fundamentally correct, the government had faithfully implemented their recommended policies, and that the desired results, ⅓ fewer farmers, was achieved. Specifically, they recognize that

> "*The farm population [4.5 percent] is now so small in relation to the total population that further migration from farms will not be substantial. Annual agricultural employment, which was 4.5 million persons only ten years ago, is now about 3.5 million persons, or only 4 percent of* the total labor force, and it is still declining. **It represents approximately the optimum farm labor force that this Committee [CED] envisaged for the 1970's in its statement** An Adaptive Program For Agriculture (1962)" (Ibid., p. 32).

Although they do not examine the other effects of these policies, such as massive unemployment and social disruption in the cities, they do acknowledge that not everyone has benefited from their programs.

"We do not mean to overlook the poverty that still persists among many small farmers and other rural Americans. Although only about one third of U.S. families live outside metropolitan areas, they constituted about 40 percent of the 4.8 million U.S. families living in poverty in 1973. Farmers who can neither attain a decent standard of living in agriculture nor find an adequate nonfarm job represent a strong case for direct income support. But we do not believe that this should be accomplished through special support programs or other kinds of programs designed to aid farmers only.

"Where poverty has persisted on American farms through the recent period of record agricultural incomes, it is rooted in a combination of social and economic causes, not in farm prices. Assistance to low-income farmers should be contingent, not upon farm production or a presumption that low farm prices are the cause of the inadequate income, but upon need. Aid through an income-maintenance program based on need is the proper long-run approach in this case.

"We believe that the most effective way to give relief to farmers who are poor and to alleviate rural poverty in **general is through the development of an adequate federal welfare program based on a national minimum income.** *The family-assistance program considered in Congress a few years ago would have gone far toward answering the needs of small farmers and of disadvantaged rural people who do not operate farms, and we again urge the establishment of such a program."* (emphasis added) (Ibid., p. 36).

CED

They summarize:

> **"This statement examines the vast changes that have taken place in U.S. agriculture in the past decade. The reduction in the number of farms, the great increase in productivity, the industrialization of farming, and the urbanization of rural life have produced two readily identifiable agricultural sectors.**
>
> **"One sector consists of large farms that, although numbering about 25 percent of all farms, produce 80 percent of all farm marketings. This group is engaged in the production of the major food and fiber crops such as grains, oilseeds, and cotton. these products of commercial agriculture have been the focus of U.S. agricultural policy over the past forty years and are now the major crops in world trade.**
>
> **"The other 75 percent of U.S. farms, accounting for only 20 percent of the output, are operated largely by farmers who are increasingly dependent on the industrial and service sectors of the economy to provide supplemental or full-time employment. Where financial distress exists in this group, it is rooted mainly in general social and economic causes, not in farm prices. Assistance for these farmers should be extended not through special support programs but rather through the same kind of program that should be made available to all disadvantaged Americans, urban or rural i.e., through a national welfare assistance program based on a minimum annual income."** (Ibid., p. 24)

The creation of a two-tier system of agriculture, with a few large, corporate-type farms, and the remaining majority only farming part-time or on welfare is the end result of the 1962 CED plan. By 1974, this had been accomplished, and recommendations to continue below-parity prices and to develop a national welfare plan are presented.

The authors of this 1974 report, like those in 1962, are well-positioned inside and outside government to have an enormous influence on implementing these recommendations.

They are listed below, from the original report:

Subcommittee on Government Farm Policy

Chairman

JOHN H. DANIELS, Chairman
Independent Bancorporation

JOSEPH W. BARR
Chairman and President
Franklin National Bank

[1]**WILLIAM O. BEERS**, Chairman
Kraftco Corporation

ROBERT J. CARLSON
Senior Vice President
Deere & Company

ROBERT C. COSGROVE, Chairman
Green Giant Company

R. HAL DEAN, Chairman
Ralston Purina Company

[1]**ALFRED W. EAMES, JR.**, Chairman
Del Monte Corporation

ROBERT T. FOOTE
Chairman and President
Universal Foods Corporation

TERRANCE HANOLD
Chairman, Executive Committee
The Pillsbury Company

H. J. HEINZ, II, Chairman
H. J. Heinz Company

ROBERT D. STUART, JR., Presiden
The Quaker Oats Company

Nontrustee member[2]

JAMES W. McKEE, JR., President
CPC International Inc.

[1] Voted to approve the policy statement but submitted memoranda of comment, reservation, or dis
See pages 64 to 66.

[2] Nontrustee members take part in all discussions on the statement but do not vote on it

---

Advisors to the Subcommittee

ROGER GRAY
Food Research Institute
Stanford University

HENDRIK S. HOUTHAKKER
Harvard University

D. GALE JOHNSON, Chairman
Department of Economics
University of Chicago

WILLIAM R. PEARCE
Vice President
Cargill, Incorporated

VERNON RUTTAN
Agricultural Development Council

LUTHER TWEETEN
Department of Agricultural Economics
Oklahoma State University

Project Director

JOHN A. SCHNITTKER
Schnittker Associates

CED Staff Associates

Project Editor
CARL RIESER

Staff Advisors
ROBERT F. LENHART
FRANK W. SCHIFF

Luther Tweeten

Department of Agricultural Economics, Oklahoma State University, he has been an extremely important researcher and policy writer during the past 15 years.

Most importantly, he was the primary contributor to Secretary of Agriculutre Bergland's *1978 Report to Congress on the Status of the Family Farms*, indicating his influence in the present administration.

John Schnittker

At present a Washington-based consultant with his own firm, Schnittker Associates, he was an under-secretary of agriculture from 1965-69. He was one of the top candidates for the Secretary of Agriculture position in the Carter Administration.

D. Gale Johnson

Chairman, Dept. of Economics, University of Chicago.

Professor Johnson has served as a consultant to the U.S. Agency for International Development (1962-68), as agricultural advisor of the Office of the President's Special Representative for Trade Negotiations, as a member of the President's National Advisory Committee on Food and Fiber (1965-67), and on the advisory board of the State Department Policy Planning Council (1967-69).

Along with John Schnittker (mentioned above) and George E. Brandow, Johnson was cited as one of three economists having considerable influence on farm policy since 1960, by Cochrane and Ryan in their important book, *American Farm Policy, 1948-1973.*

He is one of the authors of the Trilateral Commission recent report on the world food problem.*

---

*For an excellent analysis of the Trilateral Commission report, see **The Trilateral Commission Takes on World Hunger**, Earthwork, 3410 19th St., S.F. CA 94110.

UNDERLYING MOTIVATIONS

Although the actual strategies and tactics of the CED are carefully spelled out, it's never hinted until the very end of this report what their underlying goals and motivations might be.

They make a strong point that the possibility of "A recurrence of agricultural instability" must be kept in mind so as to maintain "**an atmosphere relatively free of the political pressures from farmers experienced in the past**" (Ibid., p. 41)

Suddenly, the picture becomes much clearer. The real target of the CED appears to be the political strength of the farmers, and they acknowledge that their tactic of enforcing below parity prices, and providing income subsidizes, has successfully minimized farmers' ability to exercise political power.

The minimizing of farmers' power was crucial to the corporations for several reasons:

- Farmers had historically aligned themselves with trade unions and urban workers, including the formation of Farmer-Labor Parties which held political power in a dozen mid-west and southwest states. These parties were committed to the restriction and control of corporations, such as the state-owned bank and grain trading enterprises in North Dakota, and the ban on corporate farming in several mid-west states.

- The political strength of farmers was displayed in their ability to lobby for and win favorable farm policies. These policies helped strengthen their economic, thus political power, making it difficult for corporations to dominate agriculture as they were attempting to control other industries.

The intensity of the mass media campaign to discredit the American Agriculture Movement, and particularly the idea of parity is especially revealing of both the political power that farmers who have survived still hold, and of the importance to corporate interests of keeping farm prices down to break this remaining power.

ALTERNATE POLICIES—LEARNING FROM THE PAST

One of the dangers of focusing primarily on the policy recommendations of these corporations, and on the fact that they were often successful, is that it tends to negate the power or influence that farmers, consumers, and workers can have over policy. We begin to think that the corporations are all powerful, become discouraged, and feel unable to make any real changes in the situation we face today. This is, in fact, exactly what corporations are counting on.

If we can remember that is was the very strength of farmers and working people in the 30's and 40's which restricted corporations, forcing them to **need** policies that would take away power from farmers, we can begin to understand that things haven't "always been this way," and that they can be changed. The fact that policies favoring farmers (in relation to corporations) were in force earlier in the century gives us insight into the possibility that new policies can be enforced to reverse the current situation. Focusing attention on this possibility raises some key questions.

- Were alternatives to the CED-type corporate policies put forward? Why were they unsuccessful in being enacted?
- What can we learn from previous experience to guide our work today?
- What policies would put power back into the hands of farmers and workers, rural and urban?

By looking back through recent history, we can find policy statements from groups representing the interests of certain organized groups of farmers, trade unions, and consumers which can give us insights into their analysis of the situation, and the actual policies and strategies they advocated. Understanding these, and the reasons for their success and failure, can be important guides for our work today.

CONFERENCE ON ECONOMIC PROGRESS

Four years before the appearance of the 1962 CED "Adaptive Program" report, a group of farm organization and trade union leaders published a document entitled "Toward a New Farm Program: Economic and Moral Aspects of A New Program Fair and Beneficial to Farmers, Workers and Consumers." (reference #4)

This group, the Conference on Economic Progress, defined itself as follows:

CONFERENCE ON ECONOMIC PROGRESS

THE CONFERENCE ON ECONOMIC PROGRESS is a non-profi non-political organization engaged solely in economic research, education, an publication of studies related to full employment and full production i the United States.

THE NATIONAL COMMITTEE of the Conference
includes the following:

THURMAN ARNOLD
Attorney, former Asst. Atty. General of U.S., Judge U.S. Court of Appeals

WILLIAM H. DAVIS
Attorney, former Director, Office Economic Stabilization

ABRAHAM FEINBERG
Chairman, Julius Kayser Co

RICHARD H. FROST
President, National Pneumatic Co

A. J. HAYES
President, Int. Assn. Machinists, V.P. and memb. Exec. Cncl. Amer. Fed. Labor

FRED V. HEINKEL
President, Missouri Farmers Assn., Inc.

J. M. KAPLAN
President, Welch Grape Juice Co

LEON H. KEYSERLING
Econ. and atty., former Chmn. President's Council of Economic Advisers

O. A. KNIGHT
President, Oil, Chemical and Atomic Workers

MURRAY D. LINCOLN
President, Nationwide Mutual Insurance Cos

ARMAND MAY
President, Amer. Associated Cos., Amer. Factors Co

JAMES G. PATTON
President, National Farmers Union

MILES PENNYBACKER
President, Voltarc Tubes, Inc.

WALTER P. REUTHER
President, Cong. Ind. Organizations, United Automobile Workers

MARVIN ROSENBERG
Chairman, Cameo Curtains, Inc

M. W. THATCHER
Pres., Nat. Fed. Grain Cooperatives

Unswervingly simple and direct in its presentation of "the nub of the farm problem" as "depressed farm income . . (which) not only hurts farmers more, but also hurts the whole American people more, than the farm surpluses or the public costs of supporting these surpluses," (Ibid., p. 36). The study declares national farm policies "bankrupt," examines the nature of the "farm fiasco" and its relation to the economy as a whole, and proposes a new set, indeed a first set, of coordinated short- and long-range goals to be encompassed in a "Full Prosperity Budget for Agriculture."

Their proposed program included:

1. Application of the Employment Act of 1946, in order to achieve

a) expanded domestic and overseas consumption of American farm products;

b) adjustment of farm production and employment to consumption, recognizing the economic efficiency and social desirability of the family type farm (with the help of amplified, low-cost credit, limits on farm size and ceilings on public payments to individuals, for example).

c) a rising level of farm purchasing power, meaning the gradual attainment by farmers of income parity with the nonfarm population.

2. Price supports, production payments or other forms of direct income supplementation, as desirable, so that price levels can be related to income goals.

3. Rationalization and reduction of the public costs of maintaining a farm program.

The three fundamental ills being addressed in the study are the great deflation of farm income since World War II (a 23% real decrease between 1947-58 vs. a 48% increase in nonfarm income), the consequent erosion of the family type farm which was (and continues to be) supplanted increasingly by the "factory in the field," and the growing accumulation of farm surpluses that deepen farm price depression and raise public support costs to astronomic levels.

As for farm surpluses, they have been exaggerated, says the report. Although the problem they pose is undeniable, they have been used as an excuse "for the vain attempt to reduce them by impoverishing farmers" through deflationary income tactics. Stocks accumulated over a long period of years (1952-58) show a soaring surplus for some crops (wheat, corn, cotton, tobacco). But the annual record until 1958 reveals moderation of that excess and even a certain balance overall between production and use. Moreover, when put in the perspective of the national economy, the waste of unused production seems almost benign compared to the much more costly waste of idle productive resources through (created) unemployment, a strategy to which an executive of Ford Motors and CED member finally admitted after a good bit of prodding at Congressional Hearings called in response to their 1962 "Adaptive Program." In addition, they point out that deficient incomes of nonfarm families aggravate the farm depression, contrary to the thinking often propagated in this respect:

> *"There has been propaganda to the effect that farmers have been hurt by rising industrial wages. Just the opposite is true. Farmers have been hurt by the failure of wages and salaries to expand enough to help maintain full consumption and full prosperity for all. During the six-year period under review, the deficiency in wages and salaries was almost three-quarters of the total deficiency in consumer income. In 1958, the deficiency in wages and salaries was more than four-fifths of the consumer income deficiency."* (Ibid., p. 29).

Thus, says the study, if low wage earning families (who spend relatively more for food than higher income families) could earn enough to afford an adequate diet, total consumption of various food products would rise between one and three percent—more than the "surpluses" of many of these products. And, continues the report, if the low wages of farmworkers are "high" relative to the farmer's ability to pay, the remedy is to restore farm income so as to also lift farm wages; it is not to reduce industrial wages.

If the farm depression is mainly the result of falling farm prices, there is nevertheless another factor which plays an influential role, points out the report: the increases in "administered" prices of industrial goods which the farmer buys. Opinion has it that rising wages are responsible for price inflation so damaging to consumers and producers alike. But an examination of the period leading up to the 1956-57 recession reveals that the huge corporate profits derived from "administered" price hikes were in no way justified by wage and other costs, for they rose much faster than either wage rates or prices. And when investment in means of production exceeded consumption, the big industries preferred to raise prices still further rather than reduce them in order to expand sales. Simultaneously, consumer prices rose rapidly.

Here, the study is signaling a critical probe, whose long-range implications for food and farm policy are profound: Rising consumer prices and the agitation against higher workers' wages (on the part of the forces of capital responsible for deflating farm income) only serve to keep farmers and consumers divided, preventing them from recognizing the basis for the alliance of their interests. Rising retail food prices are the reverse side of the coin of falling farm prices, with the accumulated surpluses and burdensome public costs perpetuating the vicious circle. The only ones who benefit are "those between the farmer and the consumer, who buy farm products too cheaply, and who hire labor for less than they should pay" (Ibid., p. 33).

The one, but unfortunately crucial, weakness of the Conference on Economic Progress document and the New Farm Program it proposes, is its failure to carry the implications of its cogent understanding of the "price economy" to their conclusion. Although it unequivocally states that "falling farm prices . . have contributed far more to the depression of farm income," the document makes no forceful argument for the establishment of a pricing structure that would give farmers economic strength and security. Only once does it deal with the concept of parity and then in reserved fashion, calling it "misleading" (Ibid, p. 53). In its advocacy of price and income supports "when desirable" (a condition it does not specify), the study seems to be upholding a form of welfare which will serve at best only to mitigate the helpless dependency of farmers on a marketing system weighted heavily in favor of the corporate oligopolies. Furthermore, in its discussion of the farmers' "income weakness" with respect to price setting (Ibid., p. 41), the document is disturbingly ambiguous about the extent to which its authors see that vulnerability as an evil to be done away with. They appear to view it instead as an inescapable given in the structure of agriculture, which at most can be compensated for, but not corrected by "worthy" national policies.

This organization was able to articulate a wide range of problems facing farmers and urban workers, stemming from U.S. farm policy, and made excellent recommendations. The fundamental weakness in their analysis stemmed from viewing the "problems" as mistakes or happenstance, rather than as conscious corporate strategies. Based on this analysis, their conclusions were not fundamentally different than those offered by the CED. Higher income supports, increased exports, and facilitating the exodus of millions of farm families are the same "solutions" offered by both groups.

THE SITUATION TODAY

Similar incomplete analysis still persists, consequently many of the "new solutions" are limited in their effectiveness.

A wide variety of programs, ranging from gasahol to boost demand for grain, (in hopes of raising prices) to food coops and direct marketing (to cut out the middleman) are being promoted by a variety of groups committed to addressing the "farm crisis." These are critical partial solutions to alleviate some of the conditions which presently exist, yet none of these confront the overall problem, a corporate strategy which would break the political strength of farmers through enforced below-parity prices.

Although many of these solutions might help to raise farm income, there is an important distinction between "insuring income" and maintaining political strength. Political strength is often dependent on adequate income and financial stability, but a corporate-planned welfare "solution" might "guarantee income" yet break political strength. From this position of "adequate income" yet total dependency, the few remaining farmers can be easily displaced when they are no longer needed.

The frustrations of ineffective solutions often lead to further confusion, such as being easily diverted onto secondary contradictions, and problems. The current spotlighting of the "Big Family Farms vs. Little Family Farms conflict" as highlighted by Sec. of Ag. Bergland in his recent speech to the National Farmers Union, is a prime example. **In an attempt to hide the actual social forces which are creating the situations out of which these conflicts arise, our attention gets focused onto the results rather than the causes of social problems. The breakdown of the old political alliances among farmers, workers, and consumers is a sign of the effectiveness of this tactic.**

These issues are crucial to keep in mind in our analysis of possible "solutions" to the serious problems we see throughout rural America today. By addressing the "root causes" as conscious strategies, our "solutions" can insure long-term political strength, not further dependence and weakness.

This issue will become even more critical as mis-calculations of the strength of farmers to resist the massive dis-location becomes apparent. Corporate planners have already recognized certain "changes" in their strategies which must be adopted, and are adjusting accordingly.

One change in the strategy is the current adoption of the "plight of small farmer" as an issue of fashionable concern. After "squeezing" out most of the moderate-sized, family farms, hundreds of thousands of small farms, both subsistence and "hobby," were left.

Many corporate executives and planners recognized this pattern, and discovered how it could be used to the advantage of their long-term goals. These small farms came to be seen as important suppliers of inputs to larger farms and processors (especially those inputs which were extremely labor-intensive, such as feeder pigs, broilers, etc.). These were much more cheaply produced on small, marginal farms than on large, hired-labor and capital intensive corporate-type farms. This pattern fits perfectly with the two-tier structure of farming which resulted from the CED's 1962 plan, and would continue the elimination of moderate-sized family farms.

Another example of changing strategies is the sudden interest of a major multinational computer corporation, Control Data Corporation, in the "plight of the small farmers," under the guise of "social responsibility." Speeches, financial grants, and new programs have all been thrown into the cause of saving small farms, long the "sole domain" of social activists and liberal organizations. This is especially interesting since one of the members of the Board of Directors of Control Data, Joseph Barr, is one of the key members of the CED committee who had previously written the CED Report recommending the elimination of over one-third of all farms.

This appears to be a contradictory situation, until a closer investigation reveals the strategy. Control Data recognizes, as do the corporate planners cited before, that "saving small farms" can be good for business.

At a recent meeting, Control Data executives explained that part of their interest in small farms was their usefulness as research and development grounds for new "appropriate" farm technologies and techniques. These will be important for corporate-type agriculture to adopt as petroleum-based farm inputs become increasingly scarce. More importantly, these small farm practices will be useful for exporting to third world countries, where the failures of the "green revolution" have lead to a new "small farm strategy" by the World Bank, A.I.D., and the Trilateral Commission.

Control Data made it quite clear that the "overseas market" was going to be the main focus of the marketing strategy for their computer-assisted information, technology, and education system which they are developing and testing on small farms in the United States.*

CONTROL DATA

---

*For a more thorough analysis of Control Data's program, contact Agribusiness Accountability Publications, 3410 19th st. S.F., CA 94110.

The connection between an organization wanting to force farmers out of agriculture and a corporation supposedly wanting to help these farmers is critical. It seems that the strategy is to create a serious crisis (destruction of our rural economy) and then to come along and be quite willing to help the distressed farmers created by this strategy, for a price.

By "speaking the same language" of concern for the small farmers, corporate planners are able to both confuse many people about the fundamental goals of corporations, and to elicit the cooperation of many sincere people through their "social responsibility" rhetoric. We must maintian our fundamental analysis and respond to the wide-variety of new corporate strategies which are being developed.

WHERE DO WE GO FROM HERE

Realizing that what we see as the problem, the destruction of rural society and loss of family farms, has actually been the success of a conscious corporate strategy, demands a new approach to solutions.

Through a careful analysis of the political conflict and struggle between various social and economic interests, we can begin to get a picture of where our work should go in the future. This document is a beginning for that process. The following is a summary of this analysis, and some ideas where we should begin.

1. The political strength of farmers and working people, rural and urban, in the 20s and 30s and 40s restricted the power of corporations in agriculture, reflected in a relatively low rate of return on capital investment.

2. Corporate policy planning groups concerned with countering this strength, studied this issue, and chose the elimination of one-third of all farmers through enforcing below-parity pricing as the primary strategy to minimize farmer political power.

3. These policies were successfully implemented until 1974, when corporate planning groups determined that the "necessary" forced out-migration was accomplished, and that the majority (75%) of the remaining farmers should be maintained on a national welfare program.

4. Farmer, trade union, and consumer groups were aware of the devastation taking place in agriculture, attacking many of the specific problems through a variety of programs, but they failed to define the "problem" as a strategy, thus their own policies and programs were politically ineffective or defeated.

5. The increased concentration of control that took place as a **result of this de-population strategy had a devastating effect on food system, including speculated land and depressed farm** prices. For workers and consumers in urban areas, the results **have been equally devastating; massive influxes into the cities,** with the accompanying unemployment, miserable conditions in housing, schools, hospitals, etc., as well as the skyrocketing food prices.

This analysis can help us develop a political program that is both knowledgable of the strategies behind our "problems" and learns from the mistakes and failures of other groups with similar concerns. This political program would be a three part program, including:

Part One:

Reversal of the corporations' primary strategy, the breaking of farmers' power through the enforcement of below-parity prices, through both national legislation and local efforts such as collective bargaining, direct marketing, etc.

Part Two:

Establishment of policies and programs to reverse the trends created by almost 30 years of this corporate strategy, and to repair the damage that has been done. This would include

- Anti-trust legislation and enforcement
- Soil conservation and re-building programs
- Encouragement of less non-renewable energy dependent ecologically sound agricultural practices
- Programs to encourage new farmers to get back on the land
- New taxation policies designed to stop and reverse the preference given to Capital, and to encourage agricultural development consistent with the long-term needs of farmers, workers, and consumers.
- Strong production control measures
- Participation in international grain agreements

Part Three:

Political programs which would anticipate the reaction of corporations to these new policies in ways that would attempt to discredit or destroy them. For example:

- Strict controls on food and land price increases to prevent corporations from forcing these up, and blaming it on parity policies
- Anti-trust legislation in all sections of the food economy to prevent control of agriculture, through inputs and marketing.

This political program would require the building of strong alliances among all sectors of our society who have been hurt by the implementation of past corporate policies.

This will not be an easy task. Corporations have control over much of the mass media, educational system, and channels of communication. They have used this control to discredit the needs of one group by claiming that they would hurt another, in an attempt to foster conflicts and divisions.

The threats that "parity prices would hurt consumers by raising food prices" is one prime example. We did have relatively low food prices thoughout the 50s and 60s when farmers were getting the enforced below-parity prices. But in 1974, when corporations were in control, food prices skyrocketed. Of course these price increases didn't end up in the farmers pockets, who the corporations wanted to be maintained on a welfare program paid out of our taxes. Even the USDA can only rationalize a threat of 5-10% retail price increases with parity prices, which is less that half of last year's "below parity" price increases.

Another threat made by corporations is that parity prices will mean additional increases in the price of land (since farming would suddenly become profitable) thus small or new farmers would be squeezed out of farming. Although the corporations are experts at "squeezing farmers out" so we should respect their opinions in this matter, this threat seems to be designed to create conflicts between new and small farmers (and their "friends" in urban-based advocacy groups) with medium-sized farmers. Part of the corporate strategy is the desire to have agriculture made up of many small farms (primarily supported by off-farm income) and large corporate type-farms. This desire allows them to put on a pro-small farmer hat when they know it will help in the "squeezing" of medium-sized farmers.

Although these "threats" are not inevitable, they are definitely tactics which corporations could use to discredit and destroy gains that could be made through political action. This requires that we anticipate these attempts and take political action to insure that they do not happen. Price controls on food and land would be one way to address this issue. Many others would have to be developed.

Topics of discussion to pursue with groups which we must develop alliances among include:

Consumers

Nobody has to point out the skyrocketing price increases which have occurred during this period of below-parity farm prices, and most consumers understand that behind most increases is a corporate strategy. We need to develop a political program to control food price increases, before and after the stopping of the enforced below-parity prices. In addition, the building of long-term political alliances among consumers, farmers, and workers in the food industry is extremely important for a wide variety of issues. These alliances should be based on building political strength together—not the destruction of the political strength of one group under the camouflage of helping another group.

Labor and Trade Unions

Wage increases won by working people are being taken back through the strategy of skyrocketing price increases. The relationship between the strength gained by corporations through below-parity pricing and their ability to enforce food price increases needs to be demonstrated. Likewise, the conscious de-population of the rural areas is a major contributor to the persistent unemployment crisis faced by the cities, and the lower wages resulting from such large available pools of unemployed labor. The ability of rural people to purchase the products produced by urban workers is linked to the prices farmers receive.

The historic role of farmworkers in corporate agricultural strategies is another important issue to pursue, as well as the increasing mechanization of all phases of food production.

Rural Communities

Every agricultural job lost due to the loss of farms creates an additional loss of almost three other jobs. This has translated into a tremendous de-population and devastation of rural America. A thorough examination of these effects has been done by hundreds of researchers and reporters and could be well documented.

Churches and other Community Organizations

With the decline in population of rural areas, the membership of rural organizations such as churches has declined, and the average age of participants has grown older. The financial drain on national church denominations who have attempted to keep their rural churches alive is only one on the severe costs of these policies.

"If, as I have suggested, the growth of corporate control of agriculture is not a product of efficiency, intelligence, and hard work ... but a consequence of policies and manipulations ... the task is to formulate policies ... so that the competitve advantages of large-scale operations are removed, so the ordinary working farmer has a chance. If this is done, it may not be necessary to resolve the dilemma between freedom, and equality.

Dr. Walter Goldschmidt, UCLA

REFERENCES

1. Committee For Economic Development "An Adaptive Program for Agriculture" 1962

2. Kenneth Boulding, cited in American Agriculture News, March 27, 1974; p. 4

3. Committee for Economic Development "A New U.S. Farm Policy for Changing World Needs" 1974

4. Conference on Economic Progress "Toward a New Farm Program," 1958

There is an available appendix of selected summaries, reproductions and supplemental documentation of information cited in this book. A xerox copy is available for $10.00.

This analysis and political program presented here was developed to initiate discussion towards an overall strategy for political change in food, farm, and land policies and practices. We encourage you to respond with criticisms and suggestions for translating these ideas into practice.

"Loss of Farms"
824 Shotwell
San Francisco, CA 94110

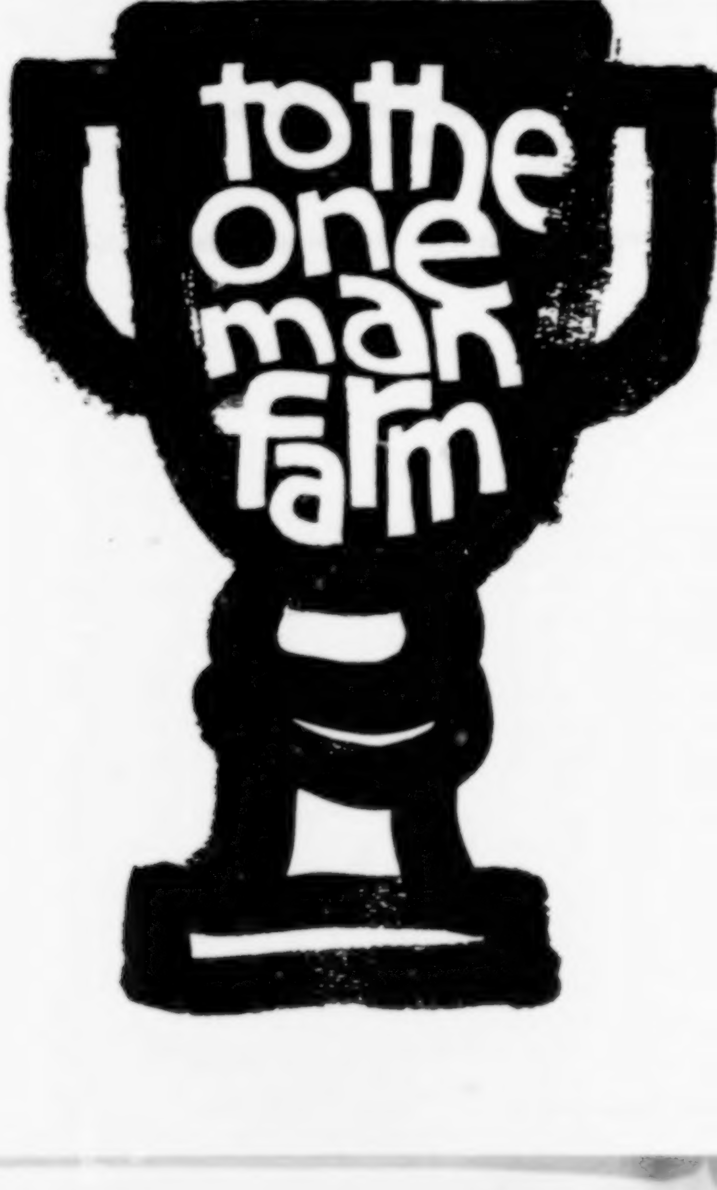
Additional copies are available at the above address:
$2.00 for 1-5 copies, $1.50 for 5 or more.
Bulk price available.

Typesetting and Layout: Free Spirit Graphics, San Francisco

agricultural situation

THE CROP REPORTER™ MAGAZINE • MARCH 1974
U.S. DEPARTMENT OF AGRICULTURE • STATISTICAL REPORTING SERVICE

EFFICIENCY WINNER


to the
one
man
farm

EFFICIENCY WINNER

A one-man farm, with the right machines and enough land to use them effectively, is just as efficient, in terms of unit costs, as any enterprise employing more labor. In fact, it's even more efficient on occasion, according to a year-long study by USDA economists.

Efficient One-Man Farms Aren't Small, Though.

"Technically optimum" one-man farms—meaning those achieving peak operational efficiency along with the lowest production costs per unit of output—tend to be far larger than the average in the United States today.

(See the table on page 4 for the optimal sizes of seven different crop farm types.)

Optimum cash grain farms in the Corn Belt, for example, have just about double the acreage as the average reported during the last agricultural census. At that time the average size of commercial cash grain

farms was 263 acres in Indiana and 694 acres in Kansas.

Furthermore, capital, management, and technical skills required on these one-man farms are roughly equal to those in a small manufacturing plant.

While still not numerous, one-man farms of optimal size are found in many farming communities. And there will likely be more in the years ahead since these farms can compete effectively in modern agriculture.

What Determines Optimum Farm Size?

Efficiency—that is, achieving the lowest production costs per acre or per unit of output—rests heavily on effective use of tractors and other farm machinery and equipment.

These expensive items represent a large fixed charge on all farms—and the more fully they are used, the lower will be per unit production costs.

(Costs for such items as feed, seed, fertilizer, and pesticides are pretty much the same per acre or per unit of output, regardless of farm size.)

Technically optimum one-man farms need to be as big as possible to employ the operator and his complement of machines to the fullest. But often the optimal size of a farm is limited by the number of working days available for critical farming operations.

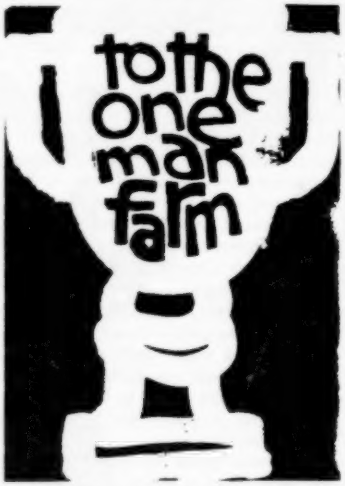
To illustrate, planting dates for spring wheat in a particular area may be confined to a specific 10-day period to realize maximum yields. If during that 10-day period a farmer can only manage to plant 300 acres of wheat, that's the effective limit on his farm size, regardless of whether he has the machine capacity to cultivate 400 acres or to harvest 500 acres.

However, a farmer might follow several different strategies to get around such planting limitations and so use all his machines to their maximum.

He could, for instance, buy or rent land in areas where the planting seasons don't coincide. A case in point would be northern and southern Kansas. Then he could farm both parts of his operation by transporting his machines back and forth between the two units.

Farfetched? Not really. The typical "farm" today is frequently not one contiguous area of land—like a 160-acre homestead. Instead, it may consist of several noncontiguous pieces—40, 80, 160 acres and so on—each rented from a different landowner. The collection of pieces making up the "farm" may vary from year to year with some dropped as others are added.

Another tactic might be to grow a secondary crop with different critical dates for planting than the primary crop. Again, this would enable the farmer to use his machines more fully—so long as he didn't have to buy extra equipment for the secondary crop.



Lastly, custom hiring part or all of peak season harvesting chores would also enable the farmer to expand his technically optimum farm size.

If Optimum One-Man Farms Are So Efficient . . . ?

If optimum one-man farms are really so efficient, how come there are still farmers operating on a smaller scale?

Even more strangely, how come there are farmers operating enterprises where they have to hire labor?

The economists noted a number of reasons why many farm operators do not reach the technically optimum size.

Some are part-time farmers who have nonfarm jobs—full or part-time—which claim their attention.

Some cannot accumulate the necessary capital.

Some are not maximizers. They feel safer with less debt, even though it means a more moderate income.

For all of these reasons smaller than optimum one-man farms will continue to exist.

As for the farms that have to hire labor, these frequently are less efficient than one-man operations due to the increasing burden of supervision and communication between the operator and workers.

But it must be remembered that a farmer who uses hired labor does so not to reduce his per unit production costs, but to increase his volume of output. The larger the output, the larger the total income—even if production is somewhat less efficient than on an optimum one-man farm.

HOW BIG ARE THEY? The seven one-man farms listed below illustrate the wide range in technically optimum sizes that occur with different crops in different parts of the country. In dryland farming regions, for instance, wheat farms have an acre in fallow for each acre in crop—hence, they're twice as large as wheat farms in humid regions. On the other hand, irrigated farms are smaller because the land is cropped intensively. The best measure of size is man-units, based on the concept of "the man and his complement of machines."

OPTIMAL SIZE FOR SEVEN SAMPLE FARMS

Type of farm	Acres	Land value	Other capital
Montana wheat barley	1,960	$245,000	$57,000
Kansas wheat-grain sorghum	1,950	200,000	55,000
Indiana corn-soybean	800	480,000	130,000
Louisiana rice-soybean	360	108,000	50,000
Delta cotton-soybean	600	255,000	80,000
California irrigated cotton	400	320,000	64,000
California vegetable	200	400,000	85,000

TESTIMONY OF

WALTER GOLDSCHMIDT, Professor of Anthropology

University of California, Los Angeles

on

S334 FAMILY FARM ANTITRUST ACT OF 1979

MAY 15, 1979

I thank you Senator Bayh and gentlemen, and wish to express at the outset my appreciation for the invitation to discuss the vital problem of the invasion of corporate interests in the agriculture of this nation. The opportunity for citizens and scholars to be heard in the deliberations that enter into the Congressional decisions is one of the great features of American democracy. This democracy rests on our heritage of opportunity for all, and crucial in this economic and social philosophy has been our agrarian tradition - a tradition that is being seriously eroded by the invasion of corporate interests into our agriculture, which the bill before you is addressing.

As you know, I conducted a study in 1944 of two towns in the San Joaquin Valley on the effects of agribusiness on the quality of rural life, which was first published in 1946 by the Senate Small Business Committee, republished twice again in Hearings of that committee and just last year published as one part of a book, As You Sow; Three Studies in the Social Consequences of Agribusiness (Allenheld, Osmun & Co., Montclair, N.J.). Before I discuss the relationship between American institutions and agrarian policy, I want to place in the

Record three articles. The first of these, Large-Scale Farming and the Rural Social Structure, appeared in Rural Sociology last year. It is a simple correlation, state by state, that shows that the greater the dominance of agriculture by large enterprises, the larger will be the number of dispossessed, underprivileged rural lower class. The second, Reflections on Arvin and Dinuba, is a contribution to a symposium devoted to my earlier research organized for the Annual Meetings of the Rural Sociological Scoiety last fall and published in its publication, Newsline. It discusses the controversy that surrounded the study at the time, pointing up the political power of the corporate elite and the uses of such power in the erosion of the democratic process. The third, The Rural Foundation of the American Culture, is the first Gregory Foundation Memorial Lecture given in Columbia, Missouri. It develops the thesis that I propounded in my opening sentences, that American democracy depends on the small farm tradition, in greater detail than I can enter into this morning.

Just thirty-five years ago this month my wife and I, together with the third member of our research team, were living in Dinuba doing the last part of the comparative study of Arvin and Dinuba. This study, sponsored by the Department of Interior and the Department of Agriculture as a part of the Central Valley Project Studies, was specifically designed to examine the social consequences of large-scale corporate agriculture on the local rural community. We remember those days very vividly, for we would gather in the park with our brown-bag lunches to listen on our car radio to the program sponsored by the Associated Farmers of California, the then dominating organization of industrial interests in the highly industrialized agriculture of my state. We were listening to this broadcast because we were repeatedly the subject of vilification by its "farm reporter." Every effort was made to hamper the investigation, and ultimately pressure was placed upon the Agriculture Department, for which I was working, to stop the research.

We nevertheless did complete the comparative study of the two towns and that study has become a classic in the field of rural sociology. The effort to sabotage the study was made because the corporate interests were fully aware of the effects of their mode of agricultural production on community life. These effects are clearly set forth in the research that I completed, and I will briefly summarize them here. You can find a full and detailed presentation in the recent edition of As You Sow (which also includes an earlier study, an analysis of the effects of agri-business on American life and a detailed examination of the efforts to sabotage, suppress, and discredit the Arvin-Dinuba study).

The research centered on two towns in what is known as a controlled comparison. That means that every effort was made to find a situation where all possible causative factors were alike, except the scale of farm operation, which varied widely (497 vs. 57 acres per farm). Arvin, lying southeast of Bakersfield, was dominated by the

DiGirogio corporation and other large-scale operations; Dinuba, southeast of Fresno, was a community of small orchards and vineyards. Both used the capital-intensive, wage labor operations characteristic of California's specialty crop production. The dollar volume of agricultural production in the two towns was identical.

By every measure that I could devise, the quality of life in Dinuba was superior to that of Arvin.

The small farm community supported about 20% more people, these people had a better average standard of living and a higher average income. In the small farm community over half the breadwinners were farmers, independently employed businessmen, or white collar workers as against only one-fifth in such a classification in the large farm community. Less than one-third of all breadwinners were low security, low income agricultural laborers in Dinuba while nearly two-thirds of the Arvin population was farm labor.

The mileage of paved streets and sidewalks was greater and the garbage, sewage disposal and other public services were far better in the small farm community than in the industrially dominated one.

Schools were more plentiful and offered broader services in the small farm community, which had four elementary schools and one high school while the large farm community had but a single elementary school and bussed its high school students some thirty miles to Bakersfield.

The small farm community was provided with three parks while the large farm community had but a single playground, loaned by one of the corporations, with practically no facilities.

The small farm community had over twice as many organizations for civic improvement and recreation as its counterpart; it had a youth recreation center, provision for Boy Scout troups, and similar facilities that were entirely absent in the other.

There were twice as many churches in the small farm community as in that dominated by large farms.

The small farm community supported 62 separate business establishments as against 35 in the other; it had a retail trade volume nearly two-thirds greater than the large farm dominated town and the expenditures for household supplies and building equipment was over three times as great in the small farm community as in the larger farm community.

Dinuba had two newspapers each published two or three times a week, with many times the news space of the single weekly newspaper in the industrialized farm community. The citizens therefore had access to differing political philosophies and diversity in opinion on community and world issues.

Finally, and I think most importantly, Dinuba had a local civic government, elected by the local people and directly responsible to community wishes, while such civic amenities as existed in Arvin were provided at the whim of the county commissioners residing 30 miles away, with no local democratic process whatsoever.

There is no doubt that the dominance of large-scale agribusiness was the cause of these vast and important differences between two towns about 100 miles apart and engaging in the same kind of agricultural production. I mentioned earlier that a concerted effort was made to sabotage, suppress and discredit this study. The argument was made that other factors were responsible, but not only did they fail to demonstrate this, but they failed to recognize that I had effectively demonstrated in the study that each of those that others later suggested could not have been responsible for the social differences enumerated. Most of these comments harped on the theme that Arvin was younger than Dinuba, but in the study I had shown that facilities in Dinuba were all already available when it was the age that Arvin had attained in 1944. As a matter of fact, an examination of the facilities available in the two towns was made by Bruce L. LaRose, entitled "Arvin and Dinuba Revisited, A New Look at Community Structure and the Effects of Scale of Operation," and this showed that most of these amenities were still not available in Arvin in 1970, when Arvin was as old as Dinuba had been in 1944.

The sabotage of the study prevented my settling this issue of causation absolutely. It had been my intention to have a second phase of the study, examining those differences that I had found in the detailed comparison that would be easily accessible from records or by brief conversations with community leaders for each of the rural communities of the San Joaquin Valley. I was going to correlate their incidence with data on average farm size, which information had already been supplied to me by agricultural economists. The pressures brought by large growers on the Secretary of Agriculture and the Chief of the Bureau of Agricultural Economics prevented this portion of the study. I have no doubt that this correlation would have firmly supported the conclusions based on the direct comparison. The data that I do have on this group of communities show that as farm operations become larger, fewer rural people are supported per hundred acres. The correlation between size of farm and number of acres required to support an individual in the local community is .56, a relationship that could occur by chance in one in a thousand. Thus from the very outset the communities which are more industrialized in their production techniques are supporting fewer people - and this is the first step in the differential between Arvin and Dinuba.

I have discussed this attack on my research at some length because it is itself a documentation of the deleterious effects of the invasion of the American countryside by industrial interests - because it shows how these interests stifle free enquiry and hamper the democratic process. This was not directed at me personally, nor even merely at the study itself, but on the principle of free investigation of social issues.

I have not recounted here the attacks made in both houses of Congress, but I do want to point out that they resulted first in curtailing the functional effectiveness of the Bureau of Agricultural

Economics, a major social research agency of the United States government at the time, and later in its total demise. For a number of years the appropriations bill for the Bureau of Agricultural Economics provided "that no part of the funds ... shall be used for state or county land use planning, for conducting cultural surveys, or for the maintenance of regional offices." Elimination of regional offices resulted in the rapid decline of the Bureau's effectiveness, and with it went all investigation of the social and economic implications of agricultural policy. The record of the Department of Agriculture in all social and economic research in the past quarter century is a dismal one, and the same may be said of such studies in the Land Grant Colleges.

While the social scientists turned their interests elsewhere, often to assist in problems of distant nations, the American rural landscape was invaded by industrial interests and over 3 million farms disappeared, taking with them hundreds of thousands of small businesses and destroying hundreds of towns and villages.

In recent years scholars have awakened to the problem and are attacking the issue of the effect of scale of farm operation on community life. I will cite briefly a few to demonstrate that the problem of industrialization still has demonstrably deleterious effects. Isao Fujimoto has been analyzing the effects of scale of operations to show that the number of social and economic facilities declines as the size of farms increases. Phillip Leveen, using 1970 census data, shows that levels of self-employment, median income, home ownership and the quality of housing in Fresno County were lower in areas dominated by large-scale operations than in family farm areas. Merrill Goodall and his associates made a study of hundreds of civil water districts in rural California, most of which have diverse other public facilities. There are basically two kinds of districts, those in which election of officers is on a per person basis (democratic) and those in which election is on a dollar value basis (elitist). The latter is invading the rural areas of California, especially those newly being brought into cultivation. Under these circumstances, one corporation (or even one family) can have absolute control over operations of such districts. In sum, the study again shows that where corporate farms dominate, local democracy declines or disappears.

Lest those of you from the agricultural heartland of America think that this development is merely one more example of California's peculiarities, I want to warn you that what developed in my state nearly a century ago is rapidly permeating agriculture throughtout the United States. As your committee must be fully aware, land consolidation and land speculation has grown rapidly and the number of farms has declined at an alarming rate. The process of vertical integration of agricultural production has led to an increasing control by processing, marketing and other industries. This is virtually complete in the poultry industry and is growing apace in pork and beef production. In Nebraska, pivot agriculture is destroying local communities, and possibly also the land; in the south, the conversion to timber for paper pulp is transforming the landscape.

Where large-scale operations dominate agriculture, the number of disadvantaged, lower class people in the rural area increases. This correlation is clearly shown in one of the articles that I have entered into the record.

This decline of the small farmer is not a consequence of inefficiency; it is not the result of natural economic advantages in large-scale operations; it is not a natural growth at all. Studies have repeatedly shown that agricultural production achieves full efficiency on farms when they require no more than one to one-and-a-half man-years of labor.

Why then the growth of industrialized farming? The growth of large-scale operations has come about because of the advantages that large corporations derive from national policies - policies that have been promulgated by the United States Government in response to the pressures from the corporate interests themselves. Large operations are advantaged and the family farm disadvantaged by laws respecting agricultural labor relations, by the nature of agricultural "relief" programs, by the pattern of research in the Department of Agriculture and in the Land Grant Colleges, and perhaps most importantly by tax laws.

Industrial agriculture is not more profitable than the family farm; it does not produce better food, it is not more efficient in the use of labor, it does not produce more per acre of land; it is profligate in the use of energy. It is simply a concentration of power and it has used this power to further such concentration.

It is for this reason that the proposed legislation curbing the furtherance of this concentration of power is a necessary and and important step in the right direction. I believe that the hour is late and there is great urgency in the passage of the Family Farm Antitrust Act of 1979. I do not think that this bill is sufficient to turn back, or even fully to stem, the pressure of industrialization on our most vital industry, and I am hopeful that with this beginning, you will introduce other necessary legislation to preserve our heritage of the small freehold farm enterpreneur.

Gentlemen, let me reiterate what I believe to be the central issue, for it goes far beyond merely the protection of a farming tradition. Ever since the founding of this nation, there has been the recognition that our democracy rests on an economically independent agricultural base, upon the small farmer. Men as distant in time as Daniel Webster and Wayne Morse have said as much in the halls of Congress. I have tried to show that this is not merely rhetoric and generalization, but the actuality in the daily life in the rural communities throughout the nation, that in a very real and immediate sense, democracy is at stake. That, it seems to me, is quite clearly evident in the sociological analyses of rural life that I and others have made.

The Rural Foundation of the American Culture

By Dr. Walter Goldschmidt

A Gregory Foundation
Memorial Lecture

Memorial Student Union of the University of Missouri
Columbia, Missouri

January 26, 1976

The Rural Foundation of the American Culture

By Dr. Walter Goldschmidt

A Gregory Foundation Memorial Lecture

The Gregory Foundation is dedicated to providing incentives to improve the social aspects of human health and community living. Activities such as this lecture are in honor of Cecil L. Gregory, a former professor in the Rural Sociology Department of the University of Missouri-Columbia.

Biography

Dr. Walter R. Goldschmidt has been a member of the faculty of the University of California at Los Angeles since 1946, serving as a professor of anthropology. He was chairman of the department of anthropology from 1964-69. He received his B.A. and M.A. degrees from the University of Texas (1933 and 1935) and his Ph.D. degree from the University of California at Berkeley (1942).

During his employment as a social scientist with the Bureau of Agricultural Economics, USDA (1940-46), he conducted the famous study of the effects of farm size on two rural communities, Arvin and Dinuba. The findings of this study were first published by the Senate Special Committee to Study Problems of American Small Business in 1946. These findings have been presented to numerous Senate hearings and have been footnoted in hundreds of textbooks and professional journals.

These findings are now also available in Dr. Goldschmidt's latest published book, *As You Sow; Three Studies in the Social Consequences of Agribusiness*, Allenheld, Osmun and Company, 1978.

Among Dr. Goldschmidt's other published works are: *As You Sow* (1947), *Ways of Justice* (1953), *Sebei Law* (1967), *Exploring the Ways of Mankind* (1960, second edition, 1971), *Kambuya's Cattle: The Legacy of an African Herdsman* (1968) and *On Being an Anthropologist* (1970).

Dr. Goldschmidt was chosen to deliver the first Gregory Foundation lecture because of the manner in which his impeccable scholarship and humanitarian interests paralleled those of the person in whose honor the lecture was delivered.

Goldschmidt

Gregory

The Rural Foundations of the American Culture

Walter Goldschmidt

It is a very special privilege to be here in Missouri to offer the first lecture in honor of your former distinguished colleague, the late Cecil Gregory. Professor Gregory was concerned with the plight of the underprivileged in agriculture, not merely because of his sympathy for the conditions of poverty, and not merely because he saw in the situation local injustice and inequality, but because he was aware that the very existence of such conditions ran contrary to the American spirit.[1] And it is this last point—this relation between the everyday quality of local life and the character of American culture—that I want to talk about tonight.

In a nation so large as ours, with its great wealth and productivity, with its industrialization and with the centers of power and influence so remote, it is easy for the ordinary citizen in a rural area to feel unimportant; to feel that what happens here in Boone County—the very name is redolent with the strength of the frontier—is of little consequence. It is my thesis that the character of our nation was forged in the Boone counties of the American agricultural heartland, that the strength of our nation still lies in the pattern of our rural life, and that the threat to that way of life is a threat to our democracy.

I come before you as both rural sociologist and anthropologist. I shall be dealing with sociological matters at some length because the basic information derives from analyses of our rural communities. It is the sociologists task to examine the details of social relationships. Anthropologists are trained to take a broader view. Having studied the patterns of life in diverse parts of the globe and sought to examine the whole range of social behavior, belief and attitudes, we tend to see the patterned whole of life after the fashion of a novelist or artist with a scientific turn of mind.

If there is one generalization that has emerged from the study of diverse cultures, it is that the ethos—the quality of a culture or the character of a people—is determined by the access that the ordinary citizen has to the basic resources and the mode of production. The political and social structure in a society reflects the structure of its basic economic system.

This is certainly no new thesis. It was a part of the wisdom of the Founding Fathers of our nation. Their examination of the history of the world's democracies and autocracies convinced them of this essentially agrarian point of view. Our Constitution and national policies are based on it.

best copy available

When our nation was born 200 years ago, there were three basic agricultural systems in the land that was ultimately to become the continental United States: The family farm tradition of New England and the northern seaboard; the plantation system in the South, and the *hacienda* system established by the Spanish colonists extending from San Antonio, Texas to San Francisco, California. These three systems developed in relation to local conditions of climate and terrain, and each had its own historical development. More importantly, they represent three different modes of production, three different forms of social organization, and three different sets of moral values. Each has had a perduring influence upon the character of our nation.

I have summarized these features in Table 1, and will discuss them only briefly. The Northern tradition was adapted to the relatively cold climates and the relatively hilly lands of the North; the land was held by the farmer himself, who was independent in his operation, though subjected of course to the pressures of the marketing system. Hard work, ingenuity and independence were critical features of the morality that developed in this area, a pattern that we have come to know as "the Protestant Ethic." The social structure was essentially egalitarian and centered on the local town. Farming was diversified for the local market.

The Plantation system of the South stands in contrast. The relatively rich, flat and well-watered lands of the South were cultivated to crops destined for the international market. Landholdings were very large and the work was done by slave labor. This resulted in a social caste system in which leisure was a primary virtue, and work was devalued. Neither egalitarianism nor independence flourished.

The *haciendas* of the Spanish Southwest were adapted to the vast expanse of arid lands and the great distance from the market. Here the major production was in livestock and grain. The major export was hides. The land was held in immense tracts, land grants made by the Spanish Crown to local "grandees." The Indians were forced into indentured service, often with the active connivance of the missions that dotted the landscape. These were augmented by a peasant class imported from Mexico. A social class system developed, with a very small dominant Spanish nobility engaged in administration and the pursuit of leisure while the work was done by others.

Federal policies from the outset favored the expansion of the first of these traditions. Laws regulating entail and primogeniture, recognition of squatters' rights in rules of expropriation, allotments to soldiers and public sale dominated the first three quarters of America's independence as the frontiers gradually moved westward. However much these policies were honored in the breach by individuals who saw in our western territories the opportunity to further their personal interest, the dominant pattern throughout much of the great Mississippi Valley was in the small farm tradition. Indeed, under the circumstances, it was difficult to maintain that army of workers that would be necessary to exploit the value that lay in the soil if it were held in large tracts. This could be done in the South because of the high visibility of the negro slaves and the strict laws that inhibited their escape from subjugation.

These agrarian policies received their most explicit expression in the Homestead Act of 1862—significantly promulgated during the Civil War, when the congressmen from the South could no longer block such legislation. The principle was reaffirmed 40 years later, when the Great Conservationist, Theodore Roosevelt, established the Bureau of Reclamation. That agency was established to develop irrigation projects that would enable the arid lands of the West to receive water—a process that, by rough rule of thumb, increases the value of the land ten-fold. Congress, adhering to the homestead tradition and seeking to avoid giving federal largesse to a few wealthy individuals, wrote into reclamation law the rule that the amount of land for which an individual owner could receive such federal benefice be limited to 160 acres, and that the recipient must be a resident farmer, not an absentee landlord. Both these principles were directly borrowed from homesteading regulations.

These policies put the stamp of agrarianism on America and reinforced the values of the Protestant Ethic. While in each region there were exceptions to these regional patterns, while large estates can be found in the North and small farms existed in the South, each region was effectively dominated by the characteristic form in which its agriculture operated.

The family farm tradition focused, as I said, on the local community. The town and its surrounding countryside constituted such a community. Social mutuality and social equality were dominant themes; individuals were known for their adherence to the virtues of industry and thrift. I do not want to idealize this situation, for life was not without its difficulties. The growing influence and control emanating from the cities often exacerbated the natural hazards of the farming operation. The introverted character of the social system often supported local bigotry that made life difficult for the innovator or the non-conformist. You who have lived on these farms and in these farm communities know their difficulties better than I do. It is no accident that the strength of American isolationism lay in the heartland of the small farm tradition, with these introverted, egalitarian communities.

There is a kind of internal contradiction in the culture built upon the Protestant Ethic; one which, in fact, was recognized by the theologians such as John Wesley, who first formulated it. Central to this ethical system is the belief that success, both in the spiritual and mundane senses, is the proof of virtue. Hence, it is important that the pursuit of success be unfettered, and that the sky be the limit to a person's demonstration of such virtue. This gives approval to the process of individual self-aggrandizement and the amassing of personal fortunes. Thus, despite the egalitarian presuppositions, the system not only allows for, but actually encourages the development of great distinctions in wealth. This contradiction, as we shall see, is of great significance for what is happening to the American culture.

There emerged in California a fourth pattern of agricultural production: large scale, often corporate-controlled farming, now generally referred to as agribusiness. It emerged out of a very special brew of events that came together in the second half of the 19th century. These elements were: (1) The heritage of large landholdings from the Spanish tradition, augmented by the railroad land grants; (2) The infusion of Americans with their philosophy of growth and industriousness immigrating from the East; (3) The large army of cheap transient or casual labor, largely Chinese at the outset, released from the railroads when their construction was completed; (4) The development of irrigation works that transformed the semi-arid countryside into lush, productive land; (5) The transcontinental railroads themselves, which opened up new marketing possibilities, augmented with the development of the refrigerated car; and (6) The development of a wide variety of specialty crops, particularly fruits, nuts and vegetables, with their high cash value, to which California's Mediterranian climate was particularly well suited.

Agribusiness is built on the existence of a large body of labor hired on a daily or piece-rate basis when needed. Agriculturalists in California recognized early that such labor, if in plentiful supply, is cheaper than slave labor, for it is only used and paid for when and as needed. They have conscientiously and actively sought to preserve the flow of such labor into the area, seeking replacements from Japan, the Philippine Islands, India, the dustbowl during the thirties, and Mexico, as each source found its way successively out of the bonds of agricultural labor and into more remunerative and satisfying work.[2]

The social system that emerged is different from any of the three traditional American patterns, but took something from each. The new farmers came largely from the East with their patterns of industry and thrift and the desire to prove themselves by personal success. They grafted to this some of the racist philosophy of the

South, and worked large tracts of land based in part on old Spanish grants. To this they added corporate structures of management and the use of wage labor (features not characteristic of any other sector), which gave to the rural landscape a kind of industrial form. I should make it clear that not all the production was in the hands of large producers; there has always been and still is a large element of the American family farm tradition in the state. But the attitudes, values and structural characteristics of agribusiness operations dominate the rural scene. Furthermore, specialty crops demand a large group of seasonal workers, so that the man with 20 or 40 acres of vineyard or fruit will have to hire wage workers in large numbers when the season demands.

I studied a rural community in California in 1940; a town which had been settled 40 years earlier by families seeking to make a livelihood on small farms. What I found was that industrialized farming created an urbanized community, so I entitled my book *As You Sow*.[3] What I found was a community divided strictly in terms of social class: The farmers, local entrepreneurs, and skilled workers participated fully in community life, but the population of field laborers were excluded from the social institutions and churches and were looked down upon as inferior. The insiders (or "nuclear group," as I called them) had the social distinctions characteristic of small towns in America, but the separation of the laboring population was virtually total. These laborers at the time were migrants from Oklahoma and other southern and midwestern states; they were therefore not racially or ethnically distinct, yet "racial" attitudes prevailed. They also lived in dire poverty.

There was a second aspect of this urbanized pattern. Traditionally in small American towns, the elite group is constituted of local persons who have been unusually successful—bankers, merchants, and the more fortunate farmers. Their roots go back in the local community and they are proud of the fact that their families had pioneered in the area. However much they may feel themselves to be superior, they still retain personal ties with all. In this California town, however, the local elite did not have this character. The local leaders were, in very large proportion, representatives of large corporations—bankers, distributors of petroleum products and farm machinery, and the like—who had been sent to the town by their corporation officials to do their job. They were conscientious in these efforts, but their real concerns, their social ties, and above all their economic interests were outside. The economic interests led them directly to Montgomery Street, San Francisco, and Spring Street, Los Angeles. It is in this way that corporate agriculture, even when not actually dominant in the local community, tended to set the attitudes, the values and the social relationships.

These are patterns of behavior characteristic of the city, the kind sociologists mean when they speak of urbanization. The feeling of belongingness, of social unity and interdependence gives way to attitudes based upon economic transaction: in sociological terminology the "pecuniary nexus" replaces other social ties.

In 1944 I made a second study designed to carry this analysis a step further.[4] In my first research, the agriculture was in the hands of essentially small farm operators. In the second study I compared two towns, one in which family farms uniformly characterized agricultural production and in the other large-scale corporate operations controlled most of the land. What difference does it make, I asked to the character of community life if the local agriculture is in the hands of agribusiness?

The differences were clear and unequivocal. The measures are summarized in Table 2. Whether we focus on economic, social, or political factors, the traditional virtues of our society are better served in the family farm community than in the agribusiness town. Incomes were on the average higher though more people were supported; business enterprises were both more numerous and more profitable; there were more social amenities such as parks, paved streets, and sewers; there were more schools, clubs, and churches; there were more local newspapers and formal institutions for local political decision-making. The crucial difference is that in the family farm community, most of the population was self-employed; in the other, two-thirds were agricultural workers.

These studies were made before and during World War II. At that time, large scale farming was not very important outside of California, though the pattern had spread to Arizona and existed in Florida and in Hawaii—not then a state. In the third of a century since the war, agribusiness has grown to enormous proportions. It has transformed the South and invaded the Midwest. In the 30 years between the time of my second study and the agricultural census of 1974, half of the farm units in the nation disappeared and the average acreage in farms doubled. In the earlier year the agricultural work force constituted nearly 15 percent of the total labor force but in the latter only 4 percent. Self-employment in agriculture declined from nearly 8 million to well under 2 million persons to constitute but half of the total work force in agriculture. Since the war, 2000 farms have disappeared each week. It is estimated that for each six farms, one business disappears, adding perhaps another 400 persons who have lost their independent status, week in and week out for 30 years.

The decline in the number of farms and their consolidation into large units has an effect on the local communities. Based upon the census of 1959, the sociologist T. Lynn Smith analyzed the social structure of rural America.[5] He divided the agricultural population into five classes; one upper, three middle groups, and a lower class made up of laborers and the poorer sharecroppers and their families. In areas of traditional family farming, he found that the farm population in each county overwhelmingly belonged to one of the middle groups—which one depending upon local economic conditions. This egalitarianism disappeared in such places as Imperial County, California, and Palm Beach County, Florida. In such places there was a very large lower class, a small but substantial upper class, and very few in the middle groups. Smith gives the percentage of the population in each class for each state in the nation.

There is a direct relationship between the size of this lower class population and the prevalence of large-scale farm operations. An economist analyzed the production of the 31,000 largest farms in the United States, each of which had sold $100,000 of produce in 1964.[6] He showed the percent of production in each of 49 states that came from their farms. Here, then, were two sets of figures for 49 states in the Union. What, I asked myself, is the relation between them? It turns out that there is a clear and close correlation: as the proportion of product by the large farms increases, the proportion of lower class persons also increases.[7] (The statistical correlation is .76).

In my discussion of the California situation, I pointed out that the influence of agribusiness was not limited to the establishment of large corporate-operated enterprises, but suffused the agricultural community in other ways. One of the most important ways that this has been accomplished, especially in the Midwest, has been through "vertical integration." This is an industrial term for those situations where companies control two or more successive operations between basic production and the market. In agriculture, this often means that either suppliers or processors (or both) control farm operations. This need not be done by actually operating the farm, but through contracts with the farmers—contracts in which the corporations set the terms. Under these circumstances, the farmer virtually loses control of his operations. Those of you who have direct acquaintance with the poultry industry know very well what this means, for here the control of the "integrators" is very nearly complete, and the plight of the chicken farmer is a dire one.

Let us now bring matters closer to home. Professor William D. Heffernan of your Rural Sociology Department recently made a study of the consequences of corporate subjection and control in a rural community in Louisiana.[8] He found evidence of the development of a two-class system in the rural community comparable to those I described for California, with a lower class group having only little participation in community affairs. These latter also had little sense of influence on and commitment to the community in which they lived. As Heffernan says, this "suggests the development of two rather distinct classes for rural America which undermines the traditional American ideal of equality."

Heffernan and Lasley, studied the development of the grape industry in Missouri, and found that with increased external financing, a management-oriented operator group appears that is less involved in the local community affairs.[9] As one minister in Iowa testified at a congressional hearing: "It takes no imagination to see that absentee investors have no concern for what happens to community economic pattern or community organization where they have their investment.[10] Educational facilities may deteriorate, religious institutions may disintegrate, and social organization may evaporate, but it will not affect the investor nor his investment."

The development of pivot irrigation in Nebraska offers a comparable example. External tax-shelter capital has resulted in the development of investor oriented operations and a new breed of custom managers in the area of pivot irrigated farming.[11] One of these boasts that he has made a millionaire out of a New Jersey investor. One such operator hires 14 employees, operates 63 pivot systems (about 10,000 acres), owns $400,000 worth of farm equipment, and has grossed $3.5 million for his investors. In a report on the impact of pivot irrigation, *Wheels of Fortune*, prepared by the Center for Rural Affairs, the author says: "The social and political consequences of absentee investor financing are . . . worrisome. Traditionally, rural Midwestern communities have placed a high value on equality and independence and self-reliance. These values have shaped a social structure which is relatively free of class division.

"This will change under the emerging pattern of ownership . . . The classic division between ownership, management, and labor is already apparent in many of the larger farms . . . ."

In Arkansas, according to a study currently being made by Dr. Ralph H. Desmarais, the transition is taking place from a sharecropping to an industrial pattern.[12] Though nobody ever thought of sharecropping as the most democratic and egalitarian of social institutions, many in the communities he has investigated seem to look back to that period with nostalgia, since large scale industrial type farming has been introduced.

The evidence that large scale agribusiness is changing the social contours of the rural landscape, both in the Midwest and the South, is compelling. If the founders of our nation were correct in their broader assumption, then these changes may be seen as a threat to our democratic institutions. Certainly along with this change in our agriculture—though of course not caused by it—has come a change in our national life. We have already shifted to a nation of employees. Since the war, the number of self-employed persons has declined by 30 percent, and the proportion so employed (8 percent in 1973) is less than half that it was in the forties. As businesses have given way to corporations and corporations to conglomorates, the control of our economy becomes increasingly centralized. Perhaps modern technology dictates this course of events. But in the past, the urban condition was balanced by an agrarian rural life. That balance is in danger of being lost.

Some of these rural changes are the direct results of advancing technology. Though we have become increasingly suspicious that all technological innovations are really advancements, we are nevertheless caught in the cycle of production efficiency, and it is difficult if not impossible to turn our backs on the products of our machine age. Caution, however, is indicated. Whether irrigation agriculture will be the boon to Nebraska and Kansas that some anticipate or will be its ruination as others suggest, is a moot question.

But in large measure, the growth of large scale agriculture and of corporate control over farming through integration is not the direct product of technology, but rather of governmental policies. Ironically, many of these policies were promulgated in the interest of preserving and furthering the family farm enterprise, but have had the opposite effect. I want to enumerate some areas of policy that are directly relevant to this issue.

First there is labor policy. When the National Labor Relations Act was formulated, agricultural labor was excluded. Insofar as there was any reason behind this exclusion, it was on the presumption that farm workers were "hired hands" intimately associated with their employers. Farmers' traditional distrust of laborers, particularly of labor unions, was played upon. The fact is that most farm labor (hired hands could easily have been excluded) work in teams for relatively few producers. By this extremely cheap labor, they make large scale farms profitable and are thus able to compete advantageously with family farms. That portion of the farmer's income that is attributable to his work (as distinct from his investment and managerial income) is priced in the market in relation to this cheap labor. Thus the working farmer, whatever his personal sentiments, loses as a result of low wage scales to agricultural laborers.

Second, there are tax policies. Certain aspects of our tax legislation favor farmers through permitting them to operate on a cash (as opposed to accrual) basis. The assumption is that farmers are not in a position to use the more sophisticated and demanding accounting methods. For reasons too technical for me to go into, these offer certain tax advantages. But they are advantages that are particularly valuable for large scale operations and to non-farm corporations engaged in vertical integration of farm production. While they are of benefit to the working farmers, these regulations are of far greater benefit to the corporations with agricultural involvements and to large-scale farm operations.

Another aspect of our tax laws has to do with various kinds of special tax shelters that make it advantageous for the urban well-to-do to invest in agricultural enterprises. This may seem to make credit more readily available to the farmer, but the way these taxes work is to establish a new kind of enterprise. The new managerial class developing pivot irrigation discussed earlier is an example of such operations. Economists have shown that where such investments take place—as for instance has been the case with cattle feedlots—the result is disastrous to the small scale beef producer. While again the matter is too complicated to enter into here, its essence lies in the fact that the short-term profit motive is absent and delayed benefits (because the investment is tax-exempt) destroy the competitiveness of the market. Furthermore, as every taxpayer knows, the benefits for tax deferments and credits of all kinds are greater for the rich than for the poor, because of the progressive nature of the tax system.

The third policy area that has benefitted the large corporation has been the program of price supports and other payments. During the depression years there was created a program of farm relief under which curtailed production would be coupled with price supports and direct payments. While relief for poor urban workers demanded a "means test" to assure that the recipient was indeed destitute, no such demeaning regulation was made to apply to farmers. Those of you who remember those dark years of the thirties will know the desperate straits the farmers in this area were in at the time. But there are corporations who take millions of dollars each year of these relief funds—giving them a further advantage over the family farm operator.

Finally, there is the area of agricultural research. Agricultural colleges throughout the United States have geared their research programs to the needs of the large farmers. They have developed ever more complicated farm machinery with its high capital investment—investments of a kind that it takes a large operation to amortize. There has been no counterpart investigation of the costs of such machines—social costs and secondary costs.

Here I want to offer an example close to home. The comparative study I made in 1944 which I summarized earlier has had an interesting history. In the 30 intervening years it has thrice been printed by a Senate Committee, and is frequently quoted in the sociological and political literature dealing with American rural life.

But, aside from such small scale efforts as I have already noted, nobody has followed it up with further research to correct or verify my findings or to see whether they apply under other conditions. This is no accident. When I engaged in that research I was villified and pressured by corporate interests, efforts were made to suppress and discredit the study, and, indeed, I was specifically denied permission by my employers (I was then working for an agency of the USDA) to undertake a second study designed to test and amplify my findings.[13] More impotant, as a result of pressures by corporate interests exerted on Congress, the appropriation act which funded the Bureau of Agricultural Economics specifically forbade it to engage in any similar social research. Millions were made available for research on fertilizers, pest controls and farm equipment, but nothing was available to assess the social costs of such innovations.

I said earlier that one aspect of that Protestant ethic that is nurtured in places like Boone County is a belief that each individual's value is established by his accomplishment, and that for that reason each person should be allowed to grow as wealthy and as powerful as he can. But this unfettered growth of wealth and power threatens the very social framework out of which it has emerged. It is not an easy dilemma to solve, for it confronts freedom with equality—an age-old issue. It is one, however, that the citizens of Boone county and the farmers of America must face: How much freedom? How much equality? Very much is at stake, not only for the farm communities, but for the whole of the American polity.

Even if I could, it would not be appropriate for me to solve this issue for you. It is enough that I ask you to give it your individual and collective attention. There is, however, a simpler solution. If, as I have suggested, the growth of corporate control of agriculture is not a product of efficiency, intelligence and hard work—of virtue according to the Protestant Ethic—but a consequence of policies and manipulations, the matter takes on a different character. The task is to reformulate policies respecting agriculture so that the competitive advantages of large scale operations are removed, so that the ordinary working farmer has an equal chance. If this is done, it may not be necessary to resolve the dilemma between freedom and equality.

Our nation was created by persons who were fully aware of the dangers to human freedom and dignity that result from any undue concentration of power. They examined the histories of human societies for models and formulated principles and policies designed to prevent undue influence by the few over the many. Among the most important of these were the establishment of an agrarianism that has done much to shape the character of the American culture.

Throughout our history, there have been many who have sought to undermine these principles for their private gain.

Today, the major threat to these agrarian principles lies in the growth of agribusiness which has brought about the decline of the American farmer. National policies have been shaped to serve the interests of the large corporations and have seriously undermined the agrarian foundation of our national traditions. The ultimate effect on the people of Boone county, of Missouri, and of the United States will be a profound one. It is essential that we reevaluate our policies and reformulate them if we are to preserve American values. This is a matter that should be of direct concern to every working farmer in America. It is, as I said at the outset, your concern.

Table 1. Dominant historic modes of American agricultural organization

	Agricultural traditions		
	Small Farm	**Plantation**	**Hacienda**
Region	northeast	South	Southwest
Environment	cold, broken terrain; well watered	warm, open country humid	hot, semi-arid plains & mountains
Production	mixed farming	cotton, sugar & other crops for international market	grain & livestock hides for world market, but largely self-sufficient
Production units	small, intensive	large, intensive	very large; extensive
Management	owner-operator	elite, often absentee ownership with overseers	elite ownership
Labor	family and "hired hand"	slave labor (many)	indentured Indians & peasants (few)
Social	egalitarian	racial castes	strict social classes
Work attitudes	work valued	work disvalued	work disvalued
Values	industry, thrift, personal success, ingenuity	leisure pursuits, family heritage, traditionalism	masculinity, endurance, family heritage, Spanish traditions

Table 2. Comparison between a family farm and agribusiness community in California

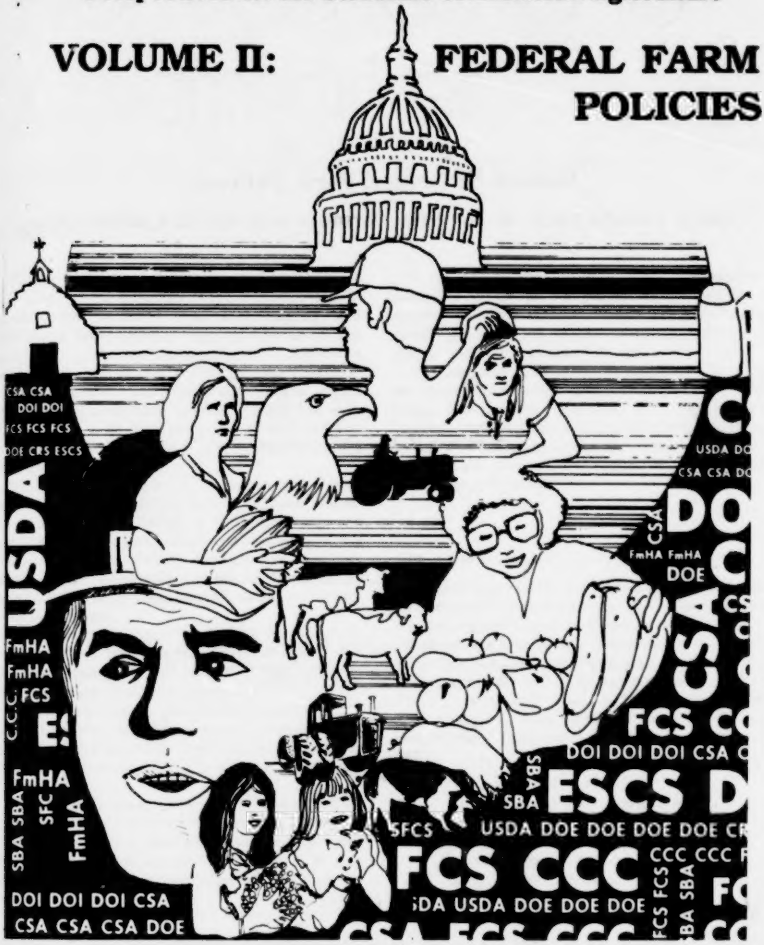
	Family Farm Town	Agribusiness Town
Economic base is the same		
Total farm sales (millions)	$2.5	$2.4
Farm size is different		
Average farm size in acres	57	497
Farm size adjusted for productivity	87	285
Population characteristics differ		
Total population	7,400	6,200
Self-employed & white collars	970	240
Percent of labor force	51%	19%
Agricultural labor	550	800
Percent of labor force	51%	65%
Economic conditions differ		
Number of retail businesses	141	62
Total retail sales (millions)	4.4%	2.4%
Level of living (pct above combined mean)	70%	30%
Community affairs differ		
Number of civic organizations	21	7
Participation (members per 100 population)	42	29
Number of churches	15	9
Church attendance (percent)	72%	59%
Public parks	2	0
Civic affairs differ		
Participation in school activities (percent)	28	16
Newspapers (issues per week)	4	1
Local government (incorporation)	yes	no

Footnotes

1. Those sentiments are expressed in Max R. White, Douglas Ensminger, and Cecil L. Gregory *Rich Land - Poor People*, Indianapolis, Ind. U.S. Department of Agriculture, Farm Security Administration, Region III, 1938, and in C. T. Pihlblad, Arthur W. Nebel, and Joseph H. Stokes and Melvin W. Sneed and Cecil L. Gregory, *The Rural Almshouse Population in Missouri*; Columbia, Missouri, Agricultural Experiment Station Research Bulletin, No. 3, University of Missouri, 1938.
2. This has been thoroughly documented by Varden Fuller in *The Supply of Agricultural Labor as a Factor in the Evolution of Farm Organization*, Hearings Before a Subcommittee of the Committee on Education and Labor, United States Senate, ("LaFollette Committee") 76th Congress, 3rd Session, part 54, Exhibit 8762A, 1940.
3. Walter Goldschmidt, *As You Sow* The Free Press, 1947. Republished as Part 1 of *As You Sow: Three Studies in the Social Consequences of Agribusiness*. Allenheld, Osmun, 1978.
4. Walter Goldschmidt, *Small Business and the Community: A Study in Central Valley of California on Effects of Scale of Farm Operations*. Report of the Special Committee to Study Problems of American Small Business, 79th Congress, 2nd Session, Senate Committee Print No. 13, 1946. Republished as Part 2 of *As You Sow: Three Studies in the Social Consequences of Agribusiness*.
5. T. Lynn Smith, The Study of Social Stratification in the Agricultural Sections of the U.S.: Nature, Data, Procedures, and Preliminary Results. *Rural Sociology* vol. 34, 1969.
6. Radoje Nikolitch, *Our 31,000 Largest Farms*. Agricultural Economics Report No. 175, Economic Research Service, USDA, 1970.
7. Walter Goldschmidt, Large Scale Agriculture and the Rural Social Structure, *Rural Sociology*, Vol. 43, 1978.
8. William D. Heffernan, Sociological Dimensions of Agricultural Structure in the United States. *Sociologia Ruralis*, Vol. 12, 1972.
9. William D. Heffernan and Paul Lasley, Agricultural Structure and Interaction in the Local Community: A Case Study. *Rural Sociology*, Vol. 43, 1978; Paul Lasley and William D. Heffernan, Structural Changes in Central Missouri's Grape Industry. Paper presented to the Rural Sociological Society (mimeographed), 1976.
10. Lester L. Moore, pastor of the United Methodist Church of Corning, Iowa, before the Senate Committee on Small Business, U.S. Senate (*"Corporate Farming"*) 90th Congress, 2nd Session, May 21 p. 173, 1968.
11. Center for Rural Affairs, *Wheels of Fortune* (A Report on the Impact of Center Pivot Irrigation on the Ownership of Land in Nebraska). Walthill, Nebraska, (mimeographed), 1976.
12. Ralph H. Desmerais, *Revolution and Response: The Rural Community in Arkansas*. MS.
13. Walter Goldschmidt, Agribusiness and Political Power, Part 3 of *As You Sow: Three Studies in the Social Consequences of Agribusiness*.

Perspectives on the Structure of American Agriculture

VOLUME II: FEDERAL FARM POLICIES


USDA
CSA CSA
DOI DOI
FCS FCS FCS
DOE CRS ESCS
FmHA
FmHA
FCS
C.C.C.
FmHA
SBA SBA
SFC
FmHA
DOI DOI DOI CSA
CSA CSA CSA DOE
USDA
CSA CSA
DO
CSA
FmHA FmHA
DOE
CSA
FCS
DOI DOI DOI CSA
SBA
ESCS
SFCS
USDA DOE DOE DOE DOE
FCS CCC
CCC CCC
FCS FCS
SBA SBA
USDA DOE DOE DOE

Rural America/Community Services Administration

Perspectives on the Structure of American Agriculture

Volume II: Federal Farm Policies— Their Effects on Low-Income Farmers and Rural Communities

Kenneth M. Coughlin, editor

Prepared by Rural America with a grant from the Community Services Administration, as part of a U.S. Department of Agriculture inquiry into the "Structure of American Agriculture."

Spring, 1980

"From Seedling to Supermarket"

Vertical Integration in the Food Industry

Al Krebs

To many, the word "agribusiness" has replaced "farming" in the language of the marketplace. But agribusiness is more than just owning and cultivating land to produce crops and livestock. The term also includes the business of financing agriculture; of manufacturing, transporting, wholesaling and distributing agricultural inputs such as farm machinery, fertilizers, pesticides, seed, feed and packaging materials; and of the manufacturing, processing and marketing of the food once it is produced.

When a corporation *owns or operates* two or more segments of this structure, as a significant number of them do, it is called a vertically-integrated company. When a corporation *controls* two or more operations, usually through contractual agreements with farmers, as rapidly increasing numbers are now doing, it is designated as a vertically coordinated firm.

American agriculture today is increasingly dominated by highly-capitalized, industrialized, tightly-concentrated, vertically integrated and coordinated agribusiness corporations.

To rural Americans, this kind of control over our food economy can often mean soaring farm production costs, unfair food prices, and scarce credit, and it has contributed to a national farm debt of $160 billion.

At the same time, agribusiness is turning its products into synthetic, chemically-adulterated foods that are standardized through expensive advertising, packaging and franchising. It also frequently substitutes technological gadgetry for labor.

To consumers, all this means food that is designed basically for profit, not people, and it has been argued that this state of affairs has resulted in deterioration in food quality, double-digit inflation and decreasing freedom of choice.

The need now is for an understanding of the role economic concentration plays in our current food crisis, and for the formation of a coalition of farmers, workers and consumers that will demand a major role in determining the way our food is produced and that will own and control the land and other means of production.

Some Definitions

Vertical integration is only one of the four forms of corporate concentration. The other three—market, aggregate, and conglomerate concentration—are described later in this paper. For now, we will begin our discussion of vertical integration with a definition offered by U.S. Department of Agriculture (USDA) researchers Ronald L. Mighell and William S. Hoofnagle in their paper "Contract Production and Vertical Integration in Farming, 1960 and 1970":

> "It includes all the ways of harmonizing the successive vertical steps, or stages, of production and marketing. Vertical coordination may be accomplished through the market price system, vertical integration,

---

Al Krebs is editor and publisher of Agribusiness Accountability Publications, based in San Francisco, and is a former co-director of the Agribusiness Accountability Project. Mr. Krebs is also a board member of Rural America.

> contracting, cooperation, or any other means, separately or in combination. There is always some kind of vertical coordination if any production takes place."

The two USDA analysts go on to define "vertical integration" as the coordination of many stages of production in one firm. Some of these stages were previously identified with separate firms and are now merged into one.

Vertical coordination of farm production under agreements between the farmer and the processors, dealers and others who either sell to or buy from him, is known as "contract production".

Frequently, such agreements are called "forward contracts" because they are made before a commodity is produced. Often before farmers have committed much of their resources to the production of a specific commodity they will have reached an agreement with a contractor.

By 1970, 17 percent of the American food supply was controlled by agribusiness corporations through "contract production." By 1975, the figure had risen to nearly 25 percent and the American Agricultural Marketing Association has estimated that in 1980 almost 50 percent of the country's food supply will be produced under corporate contract. By 1985, it will be 75 percent.

Even those predictions can be deceiving. A close inspection of today's statistics reveals that corporate integrators control:

100 percent of sugar cane and sugar beets
98 percent of fluid grade milk
97 percent of all broilers
95 percent of processed vegetables
85 percent of citrus fruit
70 percent of potatoes
54 percent of all turkeys
51 percent of fresh vegetables
80 percent of all seed crops

As Mighell and Hoofnagle note, vertical integration is most often used to define a situation in which several successive stages of production are coordinated within one firm:

> "Nearly all firms have some inherent vertical integration. Hence, one could say that practically all production is vertically integrated to some extent. However, what we mean here by vertical integration is the situation in which two or more stages that were formerly handled by separate firms are merged into one firm. And we mean specifically, integration between farm and nonfarm stages."

A livestock feeder who buys or builds a packing plant to serve as an outlet for his feed cattle, for instance, is vertically integrating. So, too, is a lettuce packer-shipper who is also growing lettuce, as is a broiler producer who builds his own feed mill.

Vertical integration permits agribusiness, as Tenneco, Inc. officials put it, to control food from "seedling to supermarket." Claiming to take care of people's food needs from "womb to the tomb," the Del Monte Corporation (now a subsidiary of the R.J. Reynolds Corporation) is a model vertically-integrated corporation. It is engaged in food and agricultural research, seed farms, agricultural production, inputs, processing, transportation, storage and distribution, marketing, advertising and food service.

John Blair, former chief economist for the Senate Anti-Trust and Monopoly Subcommittee, notes in his book *Economic Concentration, Structure, Behavior and Public Policy*, that it is self-evident that vertical integration can affect competition adversely by establishing monopolistic control over scarce natural resources, which can result in non-integrated business being completely cut off from materials or forced by their integrated competitors to operate for far less profit.

He cites Carl Kaysen and Donald F. Turner's *Antitrust Policy—An Economic and Legal Analysis*:

> "Finally, vertical integration offers opportunities for the use of market power not available to firms operating in a single-stage market. Both price and nonprice discriminations are made possible by vertical integration, especially partial vertical integration in which a firm is both supplier and competitor of other firms . . . By narrowing the margin between the price at which it supplies its one-stage rivals and the price at which it sells the product with which their output competes, it can limit their profits, their growth, and even drive them out of business . . . By rationing the supplies of nonintegrated customers, or by

pages tightly bound

> simply refusing to deal with them, the same results can be brought about . . ."

In addition to denying them supplies, the integrated producer can impose a "price squeeze" on his non-integrated rivals by narrowing the gap between the price of the raw material and the price of the finished product.

Food Processors

Food processors and canners are among the major corporate integrators in agriculture today, mainly through "contract production." But because so many different companies are involved in processing and canning, it is not immediately apparent just how heavily concentrated that marketplace is.

However, in the canning industry there is a high degree of specialization because most canners do not can everything from applesauce to zucchini. Just as consumers are faced with two or three brands of any given item, farmers often have only two, three or possibly four markets for their product.

Regionally, for most crops, four processors handle 50 percent or more of the large-volume sales.

For example, the four leading fruit and vegetable canners—Del Monte, H. J. Heinz, Campbell and Libby, McNeil and Libby—sell more than 60 percent of fruit cocktail, 57 percent of the applesauce, 82 percent of the canned figs, 52 percent of canned sweet corn, 58 percent of vegetable juice, 53 percent of canned peas, and 72 percent of tomato sauce.

Campbell makes 90 percent of our soup.

On a national basis, these four processors have a "low-grade oligopoly," controlling approximately 40 percent of canned-good sales nationally. To the consumer this control means, according to a 1972 Federal Trade Commission study, that they have been paying $143.6 million in monopoly overcharges for canned fruits and vegetables and $84.9 million in similar overcharges for frozen fruits and vegetables.

Between 1970 and 1977, profits for vertically-integrated food processors skyrocketed: Campbell Soup's went up 70 percent; those for Heinz rose 156 percent; and Del Monte's leaped 254 percent.

Libby, McNeil and Libby is a subsidiary of Nestle Alimentana, a Swiss multinational corporation, and no figures are available for Nestles' many subsidiaries.

Such profits and control by these canners and processors have begun to alarm their major suppliers—the contract farmers—and they are beginning to take matters into their own hands.

In 1975, Domenic Enrico sued some two dozen of the biggest food processors in the nation under antitrust and agricultural fair practices law after H. J. Heinz and others stopped purchasing his tomato crop.

Enrico, a successful organizer for the California Tomato Growers Association (CTGA), which bargains with the canneries on behalf of the growers, claimed that the Heinz cancellation was an effort by the firm to halt his organizing activities.

The suit went largely ignored, however, by industry, government and consumer groups. Even the CTGA excused itself from the suit. One attorney for the canners told Enrico, "our technique for winning this kind of a suit is to drag it out so that the guy either goes broke or dies of old age."

In April, 1979, however, John and Jim Diedrich, two neighboring Firebaugh, California farmers, filed their own class action antitrust suit. They charged that Contadina Foods, Inc. and Ragu Foods, Inc. convinced them to invest more than $1 million in new tomato harvesting machines by promising to buy enough tomatoes to justify the expense. Once the machines were purchased, the canners refused to contract for the Diedrich's crop.

The Diedrichs soon joined Enrico and together the three are now charging the two dozen major U.S. canners with allegedly conspiring to fix prices, eliminate competition in the canning tomato industry and using intimidation to convince farmers not to join price bargaining associations.

The three growers promise to draw national attention to their suit, since 80 percent of the country's processed tomato crop comes from California and many of these same firms are major processors and canners of a variety of other fruits and vegetables.

Who's Got the Beef?

We can see dramatic evidence of this trend toward economic concentration through vertical integration in other areas of our food-production system.

The nation's $40 billion meat industry is of particular interest today since it is the largest single component of the food industry with regard to total assets, value added to product, total employees and total business receipts. It accounts for 30 percent of the total cash receipts of the food industry.

Today, a whole new generation of large and powerful multinational corporations are rapidly entering the meat-production and meat-packing industry. They join such well-known conglomerates as Greyhound (Armour), Ling-Temco-Voight (Wilson), Esmark (Swift), General Host (Cudahy), United Brands (Morrell) and the nation's largest meat company, Iowa Beef Processors.

In 1978, Cargill purchased 92.5 percent of the stock of MBPXL, the second largest meat packer in the U.S. Cargill, the nation's largest private corporation with 1978 sales of $11.6 billion and net earnings of $121 million, is one of the four privately-owned multinationals (Continental, Louis Dreyfus and Bunge are the others) that control 80 percent of the world's grain trade.

Cargill's empire includes some 216,000 cattle, a huge packing company, the world's largest feed grain operation, and a brokerage house that deals aggressively in the futures market, making Cargill the nation's biggest corporate agribusiness integrator. Continental Grain Co., the world's second largest grain company, is also becoming a dominant force in the nation's beef production industry with 105,000 cattle and the Loveland Packing Co., Allied Mills and Conti-Commodities.

Forms of Concentration

Blair, in his book mentioned earlier, also observes that "a true understanding of concentration must embrace the structural and market-behavioral aspects of all four dimensions of concentration."

These four dimensions, or forms of concentration, are market, aggregate, conglomerate and vertical.

Market concentration is the control of an industry or market by a small number of producers exclusively or primarily involved in that industry. A market is generally referred to as "concentrated" if the eight largest companies share more than 50 percent of the market.

Lettuce production, for example, is dominated by a relatively small number of firms called "grower-shippers." In 1976, according to William Friedland's *Manufacturing Green Gold*, California and Arizona produced 92.5 percent of all U.S. lettuce and four grower-shippers were probably responsible for shipping about 40 percent of that crop.

Aggregate concentration means that the country's largest corporations control much of one industry. The 25 corporations most heavily involved in selling agricultural inputs, for example, come from the top 32 U.S. corporations. Market behavior is affected by aggregate concentration through what Blair terms "communities of interest"—powerful families, financial groups and clusters of giant corporations—said to be related by interlocking directorates (where a director who sits on the board of company "A" also sits on the board of comany "B"), intercorporate stock holdings, historical relationships and other means. Such "communities of interest" lessen the potential for independent, competitive behavior. *The AgBiz Tiller*, an independent newsletter reporting on food issues, in a 1978 study on "corporate incest" showed that among just 21 corporations involved in agribusiness, there were 53 direct interlocks and 1,981 indirect interlocks (where directors of companies "A" and "B" sit together on the board of company "C").

Conglomerate concentration means that a share of an industry is held by companies primarily engaged in an unrelated industry. The meat industry, for instance, is dominated by five large corporations, two of which are mostly involved in non-food industries (Greyhound and LTV) and a third that is rapidly expanding its business into a variety of non-food interests (Esmark).

A chief characteristic of conglomerate concentration is cross-subsidization, whereby profits earned in one industry subsidize sales in another, making possible a loss or an abnormally low profit in that industry.

As Blair explains, a conglomerate that competes vigorously in an industry that affords an important source of profits to a rival conglomerate can logically expect retaliation. Realizing this, the conglomerate won't make any competitive moves in the first industry. And the greater the number of industries in which given conglomerates confront each other, the stronger the rationale for mutual forebearance in each of them.

Finally, *vertical integration* has become a catch-all phrase to describe control; however, the term is often used loosely and interchangeably with "contract production" and "vertical coordination." Today, the corporate form of ownership of farmland and agricultural production comprises a substantial portion of the "larger farm" classes, which account for 53 percent of all agricultural sales.

Sales	Corporate Owned Acres	Corporate-Owned Farms
$100,000 to $199,999	15%	5.2%
$200,000 plus	35%	0.6%

Although we know Coca Cola grows oranges, Cargill feeds cattle, Southern Pacific raises grapes and Pillsbury harvests peas, the extent to which the "larger farm" classes are family-farm owned and operated corporations, agribusiness conglomerates or privately owned by nonfarm family corporations remains unknown.

Conclusion

In the early 1970s, a USDA Economic Research Service analysis of 262 corporations integrating farms showed that 21 percent were farm input suppliers, 48 percent were agricultural processing and distribution firms and 31 percent were nonagricultural manufacturing or servicing corporations.

As one examines these figures and begins to understand the nature of vertical integration and its effect on the structure of U.S. agriculture, an important question needs to be asked, not only by consumers, but by farmers as well. In accepting vertical integration and contract production, are farmers genuinely passing on some of the risk of farming, or are they in fact losing their decision-making power and their role as entrepreneurs?

The questions of land ownership, the protection of our natural resources, the use of chemical poisons, the manner and value of the labor we employ to produce our food and the benefits, worth and availability of food, are all issues that relate intimately and directly to what we as human beings believe to be right and just.

Salvador de Madariaga, the Spanish diplomat, essayist and historian, wrote: "He is free who knows how to keep in his own hands the power to decide, at each step, the course of his life, and who lives in a society which does not block the exercise of that power."

Eating has become an important political, social, economic and environmental act. What one eats, where one eats and why one eats is indicative of the food system one chooses.

To understand the nature and influence of the concentrated power that is threatening our freedom and good health, robbing us of our ability to govern ourselves and corrupting our values—that is the challenge that now awaits us.

The Hidden Link

Agricultural Structure and the Quality of Rural Life

Peggy Borgers

While farm families today constitute only 3 percent of the total U.S. population and only 10 percent of the population in nonmetropolitan areas, agricultural employment—both on the farm and in agriculture-related industries—is still the largest single source of rural jobs. In many regions, in fact, agriculture is the predominant activity and the basis for the local economy. The overall health of the agricultural sector obviously has a profound effect on the rural economy and, indeed, the economy of the entire nation—especially in light of the need for agricultural exports to offset expensive oil imports and assure a favorable balance of trade.

But equally important to the rural economy is the *relative* well-being of people *within* the agricultural sector. The maldistribution of income and influence within agriculture is not only the concern of farmers: it has serious implications for all rural people and their communities. In other words, the structure of American agriculture has a profound and determining influence on the "quality of life" in rural areas.

Nevertheless, this relationship between agricultural structure and quality of life has received little attention from policy-makers and federal researchers. The only federally-sponsored research on this issue was a classic 1944 study of two towns in California. Funded by the Department of Interior and the U.S. Department of Agriculture (USDA), the so-called Arvin-Dinuba study, carried out by D
Walter Goldschmidt and two other researchers, w
stopped by USDA before its completion as a result
pressure brought by large growers (see box). Despi
this, the research team was able to compi
significant data that provide the only intensiv
research picture available on how farm size affec
rural communities.

Dr. Goldschmidt, in testimony last year before t
Senate Judiciary Committee's Subcommittee
Antitrust, Monopoly and Business Rights, su
marized the study's findings:

"The research centered on two towns in what
known as a controlled comparison. That means th
every effort was made to find a situation where
possible causative factors were alike, except t
scale of farm operation, which varied widely (497 v
57 acres per farm). Arvin, lying southeast
Bakersfield, was dominated by the DiGiorg
corporation and other large-scale operation
Dinuba, southeast of Fresno, was a community
small orchards and vineyards. Both used t
capital-intensive, wage labor operations characte
istic of California's specialty crop production. T
dollar volume of agricultural production in the t
towns was identical.

"By every measure that I could devise, the quali
of life in Dinuba was superior to that of Arvin.

"The small farm community supported about

---

*Peggy Borgers is Project Director of the Rural Land Alliance, a part of Rural America. Most recent
she directed the Special Project on Low-Income Participation in the Structure of Agriculture Hearing
which developed these papers. Ms. Borgers has been working in rural issues for the past six years, havi
served as administrator of the National Rural Housing Coalition; as co-editor of ruralamerica, t
monthly newspaper of Rural America; and as Rural America's legislative information specialist on lo
income farming.*

percent more people, these people had a better average standard of living and a higher average income. In the small farm community over half the breadwinners were farmers, independently employed businessmen, or white collar workers, as against only one-fifth in such a classification in the large farm community. Less than one-third of all breadwinners were low-security, low-income agricultural laborers in Dinuba, while nearly two-thirds of the Arvin population was farm labor.

"The mileage of paved streets and sidewalks was greater and the garbage, sewage disposal and other public services were far better in the small farm community than in the industrially dominated one.

"Schools were more plentiful and offered broader services in the small farm community, which had four elementary schools and one high school, while the large farm community had but a single elementary school and bused its high school students some thirty miles to Bakersfield.

"The small farm community was provided with three parks while the large farm community had but a single playground, loaned by one of the corporations, with practically no facilities.

"The small farm community had over twice as many organizations for civic improvement and recreation as its counterpart; it had a youth recreation center, provision for Boy Scout troups, and similar facilities that were entirely absent in the other.

"There were twice as many churches in the small farm community as in that dominated by large farms.

"The small farm community supported 62 separate business establishments as against 35 in the other; it had a retail trade volume nearly two-thirds greater than the large farm-dominated town and the expenditures for household supplies and building equipment were over three times as great in the small farm community as in the larger farm community.

"Dinuba had two newspapers, each published two or three times a week, with many times the news space of the single weekly newspaper in the industrialized farm community. The citizens therefore had access to differing political philosophies and diversity of opinion on community and world issues.

"Finally, and I think most importantly, Dinuba had a local civic government elected by the local people and directly responsible to community wishes, while such civic amenities as existed in Arvin were provided at the whim of the county commissioners residing 30 miles away, with no local democratic process whatsoever.

"There is no doubt that the dominance of large-scale agribusiness was the cause of these vast and important differences between the two towns about 100 miles apart and engaging in the same kind of agricultural production."[2]

Goldschmidt had planned a second phase of this research in which he would examine all the communities in the San Joaquin Valley. He intended to focus on the differences found in the Arvin-Dinuba study, compile similar information for other Valley communities and correlate this material with data on average farm size. Although he was prevented from carrying out this portion of the study, the preliminary statistics gathered on these communities "show that as farm operations become larger, fewer rural people are supported per hundred acres."

In 1977, researchers revisited Arvin and Dinuba and found that the gap between the two towns had only widened during the intervening years. In addition to reaffirming Goldschmidt's findings, the researchers identified two new trends:

- "The population of the small-farm community has grown at a faster and steadier rate than the large-farm community."
- "The large-farm community has become more dependent on outside sources of funding, partly as a result of an eroded local tax base, while the small-farm community has remained relatively self-sufficient."[3]

Encouraged by the pioneering work of the Arvin-Dinuba study, the Agricultural Marketing Project in Tuscaloosa, Alabama compared two areas of Alabama—one dominated by large, plantation-type farms, and the other by smaller, family farms. The small-farm counties were found to have higher agricultural production and higher median incomes for both farmers and farm laborers than did the large-farm counties. The small farm counties also had more tax revenues, more paved roads, higher expenditures for public education and half the amount of substandard housing found in the large farm counties. Reporting on the results of the Alabama research, Duna Norton of the Agricultural Marketing Project and Ginny Looney, a reporter, concluded: "The results of the comparisons suggest what the government policies have not recognized: small farms are better than large farms for the economic health of a community because they contribute to a larger tax base, more public services, higher median incomes and more intensive use of natural resources."

As farms become larger in size and fewer in number, local businesses also suffer. A survey of South Dakota carried out nearly twenty years ago concluded that one small business closes down for every six farms that are forced out of operation. Larger farms, particularly those run by corporations, tend to bypass local businesses and instead buy farm inputs directly from wholesalers or the factory. Family farms, on the other hand, usually buy farm inputs and other items needed by the family from local businesses, thus contributing to the economic health of the community. The Farmers Home Administration (FmHA) studied 190,000 farm families that used FmHA-supervised credit in 1967; these families grossed $1.2 billion and spent all of it locally. Since every dollar generated by locally-owned and operated farms results in the circulation of from $5 to $12 in the surrounding community, the tendency of larger farms to export their earnings by purchasing from urban-based suppliers erodes the economic foundation of rural communities.

But by conducting economic analyses that exclude the effects on rural communities of increasing concentration in farming, USDA has been able to justify and pursue agricultural policies built on the premise that "bigger is better". The drive to concentration of resources inherent in "free market" economics has been sanctioned and encouraged by the federal government, regardless of the consequences for rural communities. The statistics indicate that these consequences have been profound.

In the past forty years, 4.5 million family farms have "disappeared." For the most part they were the smallest farms, owned or operated by low-income people; a disproportionate number were owned by black farmers. Many of these displaced families migrated to the cities, where they joined the ranks of the urban poor. Since the 1940s, almost 30 million Americans have left rural places to migrate to major metropolitan areas. The others became "the people left behind," contributing to pervasive rural poverty: with only 27 percent of the total population, rural areas account for more than 35 percent of all people living in poverty.

The litany of economic and social problems confronting rural areas has become increasingly familiar in recent years. One half of the substandard housing units in the U.S. are occupied by rural people. Sixty-five percent of the housing units without complete plumbing facilities are located in rural areas. Forty-two percent of all adults who are functionally illiterate live in rural areas. Fifty-six percent of those who live in medically-underserved areas are rural people. Only 12 percent of our nation's physicians and 18 percent of our nurses work in rural areas. 84 percent of the counties with a "critical health manpower shortage" are rural. There are 151 physicians per 10,000 urban residents, but only 69 for every 10,000 rural residents. Although only one-fifth of women of child-bearing age live in rural areas, over half the maternal deaths each year are rural women. Forty-four percent of the elderly who are poor reside in rural areas. Sixty percent of all U.S. households with inadequate public transportation services are rural households. The list goes on and on.

Meanwhile, the federal response to rural need has been inequitable and inadequate. Many domestic assistance programs are explicitly limited to urban centers; nonmetropolitan areas are eligible for other programs, but they often require more paperwork than small communities with limited or nonexistent staff can manage. Some federal programs contain "earmarked" funds or "set-asides" for rural areas, but these funds are rarely proportional to monies provided to urban and suburban areas. Meager funding, urban-oriented programs that cannot meet the special needs of rural areas, inadequate outreach efforts and a lack of coordination between (and even within) federal agencies all serve to hamper rural development efforts.

The overall responsibility for rural development lies with the U.S. Department of Agriculture. Many specific rural programs—such as loans and grants for rural housing, water and sewer facilities, fire protection and others—are administered directly by USDA. In addition, USDA is charged with coordinating the rural programs and the rural portion of national programs that fall under other agencies.

But in carrying out its rural development role, USDA has chosen to ignore the obvious interrelationship between rural development and agriculture. The failure of federal research to illuminate the economic interdependency between agriculture and rural communities has resulted in the formulation and implementation of rural development policies that are neither coordinated with nor supported by national agricultural policies. Dr. George Rucker, research director of Rural America, Inc., in a paper prepared to advise the White House in its recent attempt to come up with a unified rural development policy, observed:

"It is to be hoped that Secretary Bergland's recent speech before the National Farmers Union convention in Kansas City represents the beginning of the Administration's evolving rural policy. Secretary Bergland did not claim answers, but he asked the right questions. He asked if we really want to continue farm policies that put a premium on large-scale commercial farming. We believe that the principles Secretary Bergland was enunciating—the need to consider human values and social costs

Sabotaging the Study

"Just thirty-five years ago this month [May 1979] my wife and I, together with the third member of our research team, were living in Dinuba doing the last part of the comparative study of Arvin and Dinuba . . . We remember those days very vividly, for we would gather in the park with our brown-bag lunches to listen on our car radio to the program sponsored by the Associated Farmers of California, the then dominating organization of industrial interests in the highly industrialized agriculture of my state. We were listening to this broadcast because we were repeatedly the subject of vilification by its 'farm reporter.' Every effort was made to hamper the investigation, and ultimately pressure was placed upon the Department of Agriculture, for which I was working, to stop the research.

" . . . The effort to sabotage the study was made because the corporate interests were fully aware of the effects of their mode of agricultural production on community life.

" . . . a concerted effort was made to sabotage, suppress and discredit this study. The argument was made that other factors were responsible . . . Most of these comments harped on the theme that Arvin was younger than Dinuba, but in the study I had shown that facilities in Dinuba were all already available when it was the age that Arvin had attained in 1944. As a matter of fact, an examination of the facilities available in the two towns was made by Bruce L. LaRose, entitled 'Arvin and Dinuba Revisited, A New Look at Community Structure and the Effects of Scale of Operation,' and this showed that most of these amenities were still not available in Arvin in 1970, when Arvin was as old as Dinuba had been in 1944.

"The sabotage of the study prevented my settling this issue of causation absolutely. It had been my intention to have a second phase of the study, examining those differences that I had found in the detailed comparison that would be easily accessible from records or by brief conversations with community leaders for each of the rural communities of the San Joaquin Valley. I was going to correlate their incidence with data on average farm size, which information had already been supplied to me by agricultural economists. The pressures brought by large growers on the Secretary of Agriculture and the Chief of the Bureau of Agricultural Economics prevented this portion of the study . . .

" . . . the attacks made in both houses of Congress . . . resulted in curtailing the functional effectiveness of the Bureau of Agricultural Economics, a major social research agency of the United States government at the time, and later in its total demise. For a number of years the appropriation bill for the Bureau of Agricultural Economics provided 'that no part of the funds . . . shall be used for state or county land use planning, for conducting cultural surveys, or for the maintenance of regional offices.' Elimination of regional offices resulted in the rapid decline of the Bureau's effectiveness, and with it went all investigation of the social and economic implications of agricultural policy. The record of the Department of Agriculture in all social and economic research in the past quarter century is a dismal one, and the same may be said of such studies in the Land Grant Colleges.

"While the social scientists turned their interests elsewhere, often to assist in problems of distant nations, the American rural landscape was invaded by industrial interests and over 3 million farms disappeared, taking with them hundreds of thousands of small businesses and destroying hundreds of towns and villages."[2]

when we are evaluating farm policies—can be extended to all aspects of economic life. We believe that the long decline of rural America, which may at last be ending, was the result of the triumph of bigness not only in farming but in virtually all aspects of our economy. We believe that the enemy of rural life is concentration of power not only in agricuture but in industry and trade as well—a concentration that looks only at the benefits to the corporate unit in market terms and fails to consider the human and social costs with which those market profits may be purchased.

"In other words, we would argue that those programs and policies that discriminate against rural areas do so because they discriminate in favor of large-scale and concentrated institutions. This is the case with most of our farm programs and policies and it is also the case with our tax policies, our transportation programs, our health delivery system, and on and on and on.

"A rural policy that is meaningful will have to deal with this tendency to favor large-scale operations. It will have to assure equity in the geographic sense. This means it will have to emphasize not just rural access but small-scale access to credit, to capital and to economic opportunity. It will have to purge the regressive aspects that run all through our tax structure. It will have to emphasize support for community-based small-scale access to political as well as economic power. It will have to first and foremost adopt from the appropriate technology movement and from all great systems of ethics the basic principle that it is people who matter."[12]

Recommendations

1. Rural development policy and agricultural policy should be considered simultaneously. Care should be taken to see that the two policies are consistent and mutually supportive, rather than working at cross purposes.
2. The federal government should undertake research to determine the effects of the scale of farming on rural communities and on the entire fabric of American society. This research should identify the non-quantifiable aspects of policy decisions, so these decisions can be made on the basis of social choices, rather than simply following narrow economic dictates.
3. The public—and particularly the residents of small towns and rural areas—must have a voice in determining the direction of a coordinated agricultural and rural development policy.

Notes

1. Source: Economics, Statistics and Cooperatives Service, U.S. Department of Agriculture. Washington, D.C.: 1980.
2. Goldschmidt, Walter. Testimony before the Subcommittee on Antitrust, Monopoly and Business Rights, Committee on the Judiciary, U.S. Senate. Washington, D.C.: May 15, 1979.
3. *The Family Farm in California: Report of the Small Farm Viability Project.* State of California: November, 1977.
4. Ginny Looney and Dana Norton. "The Case for Small Farms," *Southern Changes*: December, 1979.
5. "Corporation Farming." Testimony by Ben H. Radcliffe before the Subcommittee on Monopoly, Select Committee on Small Business, U.S. Senate. Washington, D.C.: 1968.
6. Ibid. Testimony by Howard Bertsch.
7. Source: National Family Farm Coalition. Washington, D.C.: 1979.
8. U.S. Department of Commerce, Bureau of the Census. *Census of Agriculture.* U.S. Government Printing Office. Washington, D.C.
9. Economic Research Service, U.S. Department of Agriculture. " 'The People Left Behind'—Four Years Later." U.S. Government Printing Office. Washington, D.C.: November 30, 1971.
10. U.S. Department of Commerce, Bureau of the Census. *Current Population Reports: Characteristics of the Population Below the Poverty Level: 1977* (adjusted to reflect changes in the definitions of metropolitan and nonmetropolitan). U.S. Government Printing Office. Washington, D.C.: March, 1979.
11. Rural America. "Rural America Factsheet" series. Washington, D.C.
12. Rucker, George. "Some Thoughts on a Rural Policy." Rural America. Washington, D.C.: 1979.

96TH CONGRESS
1ST SESSION

H. R. 3393

To supplement and clarify the Federal reclamation laws, to promote the settlement of family farmers in Federal irrigation projects, to provide for acreage equivalency between class 1 lands and lands of lesser productive capability, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 2, 1979

Mr. WEAVER (for himself, Mr. EDWARDS of California, Mr. BEDELL, Mr. BEILENSON, Mr. PHILLIP BURTON, Mr. HAWKINS, Mr. DELLUMS, Mr. NOLAN, Mr. STARK, Mr. VENTO, Mr. JEFFORDS, Mr. MCCLOSKEY, Mr. HARKIN, and Mr. ROYBAL) introduced the following bill; which was referred to the Committee on Interior and Insular Affairs

---

A BILL

To supplement and clarify the Federal reclamation laws, to promote the settlement of family farmers in Federal irrigation projects, to provide for acreage equivalency between class 1 lands and lands of lesser productive capability, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections in accordance with the following table of contents, may be cited as the "Reclamation Lands Opportunity Act".

TABLE OF CONTENTS

TITLE I—FINDINGS, PURPOSES, DEFINITIONS

Sec. 101. Findings and purposes.
Sec. 102. Definitions.

TITLE II—ACREAGE LIMITATIONS AND EQUIVALENCY

Sec. 201. Lands other than class 1 lands—acreage equivalency.
Sec. 202. Purchase of land for dependents of qualified purchaser.

TITLE III—EXCESS LANDS AND IRRIGATION RIGHTS

Sec. 301. Rights to water and termination or suspension of rights; moratorium on sale of excess lands.
Sec. 302. Disposition of excess lands.
Sec. 303. Speculation and profiteering prohibited.

TITLE IV—REPAYMENT OF PROJECT COSTS

Sec. 401. Project cost repayment provisions of contracts.

TITLE V—LEASING OF CERTAIN EXCESS LANDS

Sec. 501. Purchases of excess lands by the Secretary in order to lease these lands to family farmers.
Sec. 502. Leasing of Lemoore Naval Air Station land to family farmers.
Sec. 503. Foreign entities.

TITLE VI—MISCELLANEOUS

Sec. 601. Guarantees by Department of Agriculture of loans made by private lenders to qualified leaseholders.
Sec. 602. Copies and explanations of this Act to be freely available.
Sec. 603. Negotiations of project contracts to be conducted in open sessions following public notice.
Sec. 604. Secretary's rules and regulations to be published.
Sec. 605. Department of Agriculture programs for family farmers.
Sec. 606. Authorization of appropriations.

TITLE I—FINDINGS, PURPOSES, DEFINITIONS

FINDINGS AND PURPOSES

SEC. 101. (a) The Congress finds that—

(1) a populous, prosperous rural society is essential to the preservation of the national character, and rural prosperity must be based on a pattern of broadly distributed ownership and operation of productive agricultural land;

(2) the purpose of reclamation law is and has been to encourage the settlement of federally irrigated land by family farmers living on or near their land;

(3) the administration of a substantial amount of the acreage currently affected by reclamation law has not accomplished and is not likely to accomplish the statutory policy of settling family farmers on the land;

(4) the construction of reclamation projects, by law, involves substantial subsidies to landowners; and that the subsidies are intended to provide landowners with an incentive to sell excess land, presumably to family farmers, but too often land has been sold instead to nonfarming investors;

(5) there are large numbers of potentially successful family farmers, both with and without financing, who, as a consequence of practices approved by the Secretary of the Interior for the sale of reclamation land, are unable to move onto the land and thus fulfill the original purposes of reclamation law;

(6) appraisal techniques to determine the approved selling prices of excess land do not fully exclude enhancements in value attributable to projects;

(7) while vendors of excess land can dispute price approval decisions of the Bureau of Reclamation, no procedure exists for prospective purchasers to challenge these decisions; and

(8) due to a variety of weather conditions, soil qualities, and other natural characteristics affecting the productivity of farmland, it is inequitable to apply the same acreage limitations to every parcel of land.

(b)(1) It is the purpose of this Act to reaffirm as law and policy that—

(A) the congressional intention in reclamation law is and has been to foster the settlement of bona fide family farmers living on or near the land in Federal irrigation projects;

(B) those who do not comply with this purpose should be excluded from the right to receive federally supplied water;

(C) the intent of the law is to exclude project benefits from the price at which excess land initially receiving federally supplied water is sold;

(D) there should be established procedures to assure sounder repayment practices from those receiving federally supplied water; and

(E) the Federal irrigation project benefits should be distributed as widely as possible.

(2) It is the further purpose of this Act to provide that—

(A) the limitation shall be applied to less productive lands in a manner, and in accordance with clear regulations, that will compensate for their less productive quality; and

(B) Federal financial assistance shall be provided to potential family farmers who would otherwise be unable to own or operate the land.

DEFINITIONS

SEC. 102. As used in this Act, the term—

(1) "family farm" means a farm (A) owned and operated or leased and operated by a family farmer or family farmers; (B) of a size small enough to be maintained and operated by such family farmers with members of their families or with hired labor and in no event larger than six hundred and forty acres except as provided for in section 201; (C) which provides sufficient income by itself in average or better agricultural years to enable the farmer to meet necessary family and operating expenses, including the maintenance of

essential chattel and real property and the payment of debts;

(2) "family farmer" means an individual who (A) owns and operates, or leases and operates for his or her own account, a farm of no more than six hundred and forty acres except as provided for in section 201; (B) lives on or within fifteen miles of the land which constitutes the farm; and (C) derives a major portion of his or her income during periods of normal agricultural productivity from the operation of that farm. The term does not include an individual whose participation in farming operations is primarily limited to management decisions with respect to land operated by or leased to another person; but the term may include an individual, otherwise meeting the provisions of this definition, who operates a family farm in the partnership, corporate, or other form of business organization, as long as each partner, officer, trustee, shareholder, owner, or other interest holder is a family farmer as defined by this section and does not own, operate, lease, control, or have any interest in, more than six hundred and forty acres of land receiving Federal irrigation water;

(3) "qualified purchaser" means any individual, partnership, corporation, group of individuals, or other legal entity who (A) is eligible under the Federal recla-

mation laws to purchase lands; (B) would be eligible, after having made such a purchase, to receive from a project or division, water for the land purchased; (C) certifies that lands purchased pursuant to the Federal reclamation laws, including this Act, will be used as a family farm, that the individual, partnership, corporation, group of individuals, or other legal entity will operate that farm as a family farm, that each partner, shareholder, owner, officer, or other interest holder shall live on or within fifteen miles of said land within a year of purchase, shall make farming his or her principal occupation as defined by section 102(2)(C), and shall not be a partner, shareholder, owner, lessee, or other interest holder in any other farming operation receiving Federal irrigation water, unless the total acreage, including the acreage being purchased, in which an ownership or interest is held is less than six hundred and forty acres;

(4) "qualified leaseholder" means any individual who (A) is eligible under the Federal reclamation laws to purchase excess lands; (B) would be eligible, after having made such a purchase, to receive from a project or division water for the lands purchased; (C) certifies the lands leased pursuant to this Act will be used as a family farm, and that that individual, group of individ-

uals, or legal entity, will operate that farm as a family farm; (D) does not have the financial resources necessary to purchase a farm of an economically feasible size; (E) has been unable to obtain adequate financing to purchase such a farm; (F) has the ability to farm those lands as a family farmer; and (G) who obtains the land through the lottery system;

(5) "blood relative" means a grandparent, parent, child, brother, sister, aunt, uncle, niece, nephew, or spouse;

(6) "Secretary" means the Secretary of the Interior;

(7) "Federal reclamation laws" means the Act of June 17, 1902 (32 Stat. 388), as amended (43 U.S.C. 391), and Acts amendatory thereof or supplementary thereto, including this Act;

(8) "project" means a Federal irrigation project authorized by or subject to the Federal reclamation laws;

(9) "division" means a substantial irrigable area of a project designated as a division by order of the Secretary;

(10) "Administrator" means the Administrator of the Farmers Home Administration;

(11) "class 1 land" has the meaning defined in paragraph 2.5.2, "Class 1", of chapter 2.5, "Land Classes", of part 2, "Land Classification", of volume V, "Irrigated Land Use", of the United States Department of the Interior Bureau of Reclamation Manual, or comparable definition contained in a subsequent manual that is officially designated as the successor in function to that manual;

(12) "Federal irrigation water" shall include underground water supplemented by a Federal irrigation project and all water commingled with Federal irrigation water; and

(13) "land sale" shall include the sale of any mineral rights on the subject parcel owned by the seller.

TITLE II—ACREAGE LIMITATIONS AND EQUIVALENCY

LANDS OTHER THAN CLASS 1 LANDS—ACREAGE EQUIVALENCY

SEC. 201. (a) Notwithstanding any other provisions of law, the Secretary, for purposes of administering Federal reclamation laws, may establish the acreage of land held in private ownership by any one individual owner or group of owners, which is eligible as nonexcess lands to receive project water from, through, or by means of project works, at six hundred and forty acres of class 1 land, or the equivalent thereof in other lands of lesser productive potential and also growing seasons of less than one hundred and eighty days: *Provided,* That in no case and for no class of land shall the equivalent acreage exceed nine hundred and sixty. Standards and criteria for the determination of land classes pursuant to this authority shall be based, where possible, on land classification surveys that have been made or shall be made in feasibility studies at or before the time the project involved was begun. Where previous land classification surveys do not exist, the Secretary may establish acreage equivalency formulas on a project-by-project basis. In any classification for equivalency purposes, including those cases where preproject surveys already exist, the Secretary shall hold public hearings in the area affected before promulgating regulations. The regulations will go into effect sixty days after their final promulgation. This section shall not apply to any project, unit, or division of a project, or repayment contracting entity located in an area in which the average frost-free growing season, as determined from published Department of Commerce records, exceeds one hundred and eighty days.

(b) The Secretary is authorized upon request of the holder of an existing contract under Federal reclamation laws to amend the contract to conform to the provisions of subsection (a) of this section, and to otherwise perform any and all acts appropriate to carrying out the purposes of this Act. All such amendments shall be negotiated and executed in keeping with the purposes and procedures set forth in sections 602, 603, and 604 of this Act.

TITLE III—EXCESS LANDS AND IRRIGATION RIGHTS

RIGHTS TO WATER AND TERMINATION OR SUSPENSION OF RIGHTS; MORATORIUM ON SALE OF EXCESS LANDS

SEC. 301. (a) One year after the date of enactment of this Act, no water from any project or division shall be delivered to any lands unless (1) those lands comprise a family farm, (2) those lands are described in subsection (b) of this section, or (3) those lands are within a project or division which prior to the enactment of this Act had been exempted by statute from the limitation. The Secretary, through the Commissioner of Reclamation, shall take appropriate steps to insure that water deliveries to lands not in compliance with the preceding sentence are terminated.

(b) In addition to lands comprising family farms, the following lands shall be entitled to receive or continue to receive Federal irrigation water:

(1) land currently under recordable contract;

(2) land parcels of less than six hundred and forty acres for the period during which they are held by the owners of record at the date of enactment of this Act;

(3) land owned by a family farmer or former family farmer who otherwise conforms and complies with the provisions of this Act, but who leases that land through the lottery system, or in instances approved by the Secretary on the basis of extreme hardship to that family farmer, for no more than two years of a ten-year period, except that the lessee at the date of the enactment of this Act of an absentee owner holding less than six hundred and forty acres may continue to lease said parcel (i) indefinitely if he or she is a family farmer as defined in section 102(2), (ii) for three years if he or she is not a family farmer as defined in section 102(2);

(4) subject to the provisions of subsection (c) of this section, land acquired by foreclosure or other process or procedure in satisfaction of a mortgage or any other legal instrument securing a creditor's rights;

(5) subject to the provisions of subsection (c) of this section, land acquired by inheritance of devise; and

(6) subject to the provisions of subsection (c) of this section, land not under recordable contract purchased prior to the date of enactment of this Act and actually receiving or lawfully entitled to receive water on that date.

(c) Lands that receive or are entitled to receive water pursuant to clause (4), (5), or (6) of subsection (b) of this section shall cease to receive or be entitled to receive water from any project or division unless those lands are sold to the Secretary pursuant to section 501 or to a family farmer to be operated as a family farm—

(1) in the case of lands described in clause (4) or clause (5) of subsection (b), one year after the date of acquisition of title to or other possessory rights in those lands by a person or persons not family farmers or for operation otherwise than as a family farm; and

(2) in the case of lands described in clause (6) of subsection (b), five years after the date of enactment of this Act.

(d)(1) Not less than sixty days prior to terminating deliveries or entitlement to deliveries of water to any lands pursuant to this section, the Secretary shall give notice by personal service or by certified mail to the record owner or owners of those lands, to any person or persons known to have a leasehold or other lawful possessory or security interest therein, and to the head or heads of any household or households of persons known to be resident thereon. The notice shall specify the legal reason or reasons for and the intended date of the termination. Each person having a right to receive such notice shall have a right, within the period after notice and prior to termination, to present to the Secretary or his delegate oral or written argument that those lands are in compliance with this section and that deliveries or entitlement to deliveries of water accordingly should not be terminated.

(2) The Secretary, by regulation, shall establish procedures for the settlement of contested rights to water under this section. Those procedures shall provide for final determination of such rights at the administrative level not later than one year after the issuance of the sixty-day notice of intended termination. While any such contest is pending, lands involved in that contest may receive water for the duration of the growing season during which the intended termination date fell. After that growing season has ended, no deliveries of water shall be made to those lands during the pendency of the contest at the administrative level or in the courts: *Provided*, That if the Secretary shall upon inquiry find and by order declare that, in a particular case, the termination of deliveries of water would cause hardships to the recipients of water that substantially outweigh the benefits to enforcement of the policy and purpose of this Act, the date of suspension of deliveries of water during the pending contest may be deferred for not to exceed one additional growing season. Thereafter, no water shall be delivered to those lands until

they have been duly found or adjudged to be in compliance with this section.

(e) Not later than three months after the enactment of this Act, the Secretary shall publish proposed regulations for the administration of this section and shall provide for hearings on those proposed regulations during the following six months. There shall be at least one day's public hearing in each region of the Bureau of Reclamation. The Secretary shall also provide for the filing of written comments on the proposed regulations during the six-month period following their publication. The Secretary shall promulgate final regulations, taking into account testimony heard and suggestions received, not prior to six months, not later than one year, after the date of enactment of this Act.

(f) No excess lands in any project or division receiving or eligible to receive federally supplied water shall be sold for a period of one year following the date of enactment of this Act: *Provided,* That, if the Secretary, upon inquiry finds and by order declares that, in a particular case, the moratorium on the right to sell land would cause hardships to the owner or owners of that land which substantially outweigh the benefits of the moratorium to achievement of the policy and purpose of this Act, the moratorium on land sales shall be waived in that case.

DISPOSITION OF EXCESS LANDS

SEC. 302. (a) A seller of land shall have the right to determine to which purchaser or beneficiary he or she will sell, give, or devise six hundred and forty acres of land if said purchaser or beneficiary is a blood relative of said seller: *Provided,* That only qualifed purchasers of that land may receive federally supplied water therefor under this Act and Federal reclamation laws. If the seller is unable or unwilling to sell, give, or devise his or her land to a blood relative, or in the sale of any land of more than the six hundred and forty acres sold, given, or devised, the purchaser shall be determined by lot, in accordance with subsection (b).

(b) The Secretary shall determine by lot which of two or more offers from qualified purchasers for the same parcel of land shall be accepted by the seller. The Secretary shall promulgate regulations for the conduct of lotteries for that purpose. Those regulations shall provide that—

(1) An applicant for the lottery system, whether as individual, partnership, corporation, or other legal entity, directly or indirectly shall be entitled to one and only one chance in that lottery in any one year if that prospective occupant is a qualified purchaser.

(2) Lands to be sold through the lottery system shall be divided by the Secretary on an annual basis into parcel sizes of from twenty to six hundred and

forty acres. The average size of said parcels shall be no more than two hundred acres in Federal irrigation project areas with more than two hundred and ten frost-free days.

(3) Lottery chances shall not be transferable in any manner.

(4) The parcels of land to be sold or leased through the lottery system shall be announced on January 1 of each year and shall be chosen on April 1 of each year. Purchase lottery winners must obtain financing and complete all other legal transactions to take title to the land no later than August 1 of the year in which they drew the successful lot. If the purchaser fails to obtain financing by August 1 the subject parcel may be placed in the purchase lottery for the following year or it may be placed in a special October 1 lease lottery for rental commencing the following January 1. The seller may not impose terms on the purchase other than a demand for cash payment. Purchasers and lessees shall take possession on the following January 1.

(5) The lottery system shall be conducted to facilitate land transfers between seasons and to avoid disruption and delay in planting and harvesting operations. Adequate notice shall be given to sellers,

buyers, and lessees. Sellers shall provide lottery purchasers and lessees timely and reasonable access to the land after the harvesting to prepare it for planting of the following year's crops. However, sellers shall retain their existing water and property rights until the buyers or lessees take possession of the land.

(c) The appraisal of lands for sale thereof shall be made without reference to any chattel, fixture, or other property which can be liquidated by the seller in a sale unrelated to the sale of lands, such as tractors, trucks, leasehold rights, securities, and other items or materials, nor shall the purchase of any such items be a condition of sale. In all cases the price for land shall be no higher than the price the Secretary determines would result from taking the fair market value of the land without reference to the Federal irrigation project benefits.

(d) Disagreements between the seller and a qualified purchaser of lands as to price or any other condition of sale shall be resolved by arbitration. The Secretary shall promulgate regulations, pursuant to section 604, for the conduct of such arbitration.

SPECULATION AND PROFITEERING PROHIBITED

SEC. 303. Between the date of enactment of this Act and the date upon which the allocated costs of a Federal irrigation project have been fully repaid, no owner of land receiving or entitled to receive water from that project or division who purchased that land at a price limited by the Federal reclamation laws shall sell that land at a price greater than that owner's costs for the land, indexed by the Consumer Price Index for the period between that owner's purchase and sale of the land.

TITLE IV—REPAYMENT OF PROJECT COSTS

PROJECT COST REPAYMENT PROVISIONS OF CONTRACTS

SEC. 401. (a) Notwithstanding any other provision of law, the Secretary, in the case of water right contracts or amendments to contracts entered into after the date of enactment of this Act, shall be required to stipulate in any such contracts that all rates and assessments to be paid by the contracting entity or the landowners in that entity shall be renegotiated every five years. The repayment capacity studies on which such rates and assessments may be based shall also be conducted every five years.

(b) Notwithstanding any other provision of law, the Secretary, in case of water right contracts or amendments to contracts entered into after the date of enactment of this Act, shall require that repayment for the distribution infrastructure systems shall commence for each section of the system when it begins regularly and permanently to deliver water. No section of the system shall be used to deliver water for more than one year unless repayment for that section has commenced.

TITLE V—LEASING OF CERTAIN LANDS

PURCHASES OF EXCESS LANDS BY THE SECRETARY IN ORDER TO LEASE THOSE LANDS TO FAMILY FARMERS

SEC. 501. (a)(1) During the fiscal year beginning October 1, 1978, and each succeeding year, the Secretary is authorized and directed to utilize all moneys appropriated for that purpose to purchase five thousand acres or 20 per centum of the irrigated land in a Federal irrigation project service area, whichever is greater, and fixed equipment thereon, for lease to family farmers in accordance with the provisions of this section. Such purchased land shall be divided by the Secretary into parcel sizes of from twenty acres to six hundred and forty acres for lease to new farmers who neither own nor operate for themselves any farm receiving Federal irrigation water. Said lottery shall be conducted as provided for in section 302(b).

(2) There is authorized to be appropriated for the fiscal year commencing October 1, 1978, and for each of the next following four fiscal years, the sum of $10,000,000 to carry out the provisions of this subsection.

(b) Each such lease shall contain a requirement that the leasehold will be used as a family farm and the leaseholder will farm the lands as a family farmer.

(c) In determining the amount of rent which a leaseholder shall be required to pay, the Secretary shall charge the going market rate for land in the area absent project benefits. The Secretary, in determining the amounts, shall be authorized to adopt variable rental schedules in order to take into account both bountiful and natural-disaster conditions.

(d) Leases under this section shall not exceed, originally or by any extension or extensions, a total term of seven years, and in no case shall any such lease be issued for a term of less than two years. No leaseholder shall sublease lands covered by his or her lease unless approved by the Secretary on the basis of an extreme hardship to that leaseholder.

(e) The Secretary shall be authorized to terminate any lease for any failure to pay rents or other substantial violation thereof by the leaseholder in accordance with such regulations as he shall prescribe.

(f) In accordance with such regulations as the Secretary shall promulgate, a leaseholder shall be authorized, during the term of that lease, to make improvements within a five-acre area approved by the Secretary for that purpose. Upon the termination of that lease, the Secretary shall compensate the leaseholder for such improvements in an amount not to exceed the fair market value thereof.

(g) In those cases where two or more qualified leaseholders make application for lease of the same tract of land, the Secretary shall determine which of those applicants shall be entitled to that lease by lot in the same manner as provided under subsection (b) of section 302 of this Act.

(h) In any case in which a qualified leaseholder certifies in a manner satisfactory to the Secretary that he or she does not have the financial resources necessary to operate the lands covered by that lease as a family farm, including nonfixed assets, such as tractors, trucks, and other items or materials, the leaseholder shall be entitled to receive financial assistance in accordance with the provisions of section 601 of this Act.

(i) In any case in which the Secretary determines, on the basis of a qualified leaseholder's use of the lands covered by his or her lease during the term thereof and such other factors as the Secretary, by regulation, shall prescribe, that that leaseholder can successfully manage and operate the lands covered by the lease as a family farm, the Secretary shall, upon application of that leaseholder submitted to the Secretary within six months prior to the expiration of the term of that lease, sell those lands to that leaseholder at the same price the Secretary paid for the land at the time of its acquisition indexed by the Consumer Price Index for the period between acquisition and sale of the land and minus the lease payments. If the leaseholder certifies in a manner acceptable to the Secretary that he or she does not have and has been unable to obtain adequate financial resources to make the purchase, the leaseholder shall be entitled to receive financial assistance in accordance with section 601 of this Act. All proceeds of those sales shall be placed in a fund to be administered by the Secretary for the purpose of purchasing additional lands for lease under the provisions of this title.

(j) Upon the purchase of land pursuant to subsection (i), the former leaseholder shall be subject to all of the conditions, limitations, and restrictions imposed by the Federal reclamation laws, including in particular title III of this Act, on excess lands and qualified purchasers thereof.

(k) Notwithstanding any other provision of law, a qualified leaseholder shall be entitled to contract for water for lands covered by the lease in the same manner and to the same extent as if that leaseholder were the owner of those lands.

(l) In any action of the Secretary involving the denial or rejection of an application for a lease under this title, the Secretary shall require that the applicant be notified of that action by both oral and written communications. If the applicant believes that the Secretary has wrongfully denied or rejected the application, the applicant shall have thirty days following that denial or rejection within which to file a petition for review of the application and denial. By regulations promulgated pursuant to section 604, the Secretary shall establish procedures for the initial processing, granting, and denial of those applications, and, following rejection, for review thereof by a different authority.

(m) If the leaseholder does not purchase the land, it shall be placed in the lottery for the year in which the lease terminates. Said leaseholder shall not be eligible to enter any future lottery conducted pursuant to this Act either as an individual, partner, shareholder, lessee, or other interest holder, unless a special exemption is granted by the Secretary.

LEASING OF LEMOORE NAVAL AIR STATION LAND TO FAMILY FARMERS

SEC. 502. Within ninety days following the date of enactment of this Act, the Secretary of the Navy shall transfer to the Secretary of the Interior administrative jurisdiction over the leasing of all lands owned by the Secretary of the Navy within the Westlands Water District which qualify as excess lands, for purposes of leasing those lands pursuant to this title. The Secretary of the Navy shall, however, be permitted to issue such rules and regulations as he may deem necessary for the operation of the Lemoore Naval Air Station, and the Department of the Navy shall retain title to the land. On and after that transfer, those lands shall be available to the Secretary of the Interior for disposition under this title in the same manner and to the same extent as those lands purchased by the Secretary pursuant to section 501, except that those lands with respect to which the Secretary of the Navy retains title under this section shall not be available for purchase in accordance with subsections (i) and (j) of section 501. Notwithstanding the provisions of section 501(d) of this Act, the Secretary of the Interior is authorized, upon the expiration of any such lease, to renew the lease for a further term or terms.

FOREIGN ENTITIES

SEC. 503. No foreign individual or entity shall hold any interest to any part of lands served by Federal water under this Act. Land held in violation of this section shall be brought into compliance of this provision within one year of enactment of this Act.

TITLE VI—MISCELLANEOUS

GUARANTEES BY DEPARTMENT OF AGRICULTURE OF LOANS MADE BY PRIVATE LENDERS TO QUALIFIED LEASEHOLDERS

SEC. 601. (a) In order to furnish financial assist [illegible] purposes referred to in section 302 and subsections (h) and (i) of section 501, the Administrator may, in accordance with the provisions of this section, guarantee loans made by non-

Federal lenders to qualified leaseholders for those purposes. No loan guarantee under this section for any such purpose may apply to so much of the principal amount thereof as exceeds 90 per centum of the cost of carrying out any such purpose.

(b) Individuals seeking guarantees of loans under this section shall submit to the Administrator applications, in a form which the Administrator shall prescribe, containing such information and assurances as may be required by the Administrator. The Administrator may approve any such application only if—

(1) there are in the application satisfactory assurances that the applicant will, if the loan is granted, keep those records, and afford such access thereto, and make those reports in the form and containing the information, as the Administrator may reasonably require; and

(2) the Administrator determines, in the case of a loan for which a guarantee is sought, that the terms, conditions, maturity, security (if any), and schedule and amount of repayments with respect to the loan are sufficient to protect the financial interests of the United States and are otherwise reasonable and in accord with regulations, incuding a determination that the rate of interest does not exceed the per centum per annum on

the principal obligation outstanding as the Administrator determines to be reasonable, taking into account the range of interest rates prevailing in the private market for similar loans and the risks assumed by the United States.

(c) In the case of any such loan guaranteed under this section, the United States shall be entitled to recover from the applicant the amount of any payments made pursuant to any such guarantee, unless the Administrator for good cause waives the right of recovery, and, upon making any such payment, the United States shall be subrogated to all of the rights of the recipient of the payments with respect to which the guarantee was made.

(d) Guarantees of loans under this section shall be subject to such further terms and conditions as the Administrator determines to be necessary to assure that the purposes of this section will be achieved, and, to the extent permitted by subsection (e), any of those terms and conditions may be modified by the Administrator to the extent he or she determines such modification to be consistent with the financial interest of the United States.

(e) Any guarantee of a loan pursuant to this section shall be incontestable in the hands of an applicant on whose behalf the guarantee is made, and as to any person who makes or contracts to make a loan to the applicant in reliance thereon, except for fraud or misrepresentation on the part of the applicant or such other person.

(f) The cumulative total of the principal of the loans outstanding at any time with respect to which guarantees have been issued under this section is authorized to be any amount not in excess of $50,000,000.

COPIES AND EXPLANATIONS OF THIS ACT TO BE FREELY AVAILABLE

SEC. 602. The Secretary, on request of any individual, shall furnish without cost to that individual a copy of this Act, together with a summary explanation of the provisions thereof written in simple English or in simple Spanish, as the requesting individual desires.

NEGOTIATIONS OF PROJECT CONTRACTS TO BE CONDUCTED IN OPEN SESSIONS FOLLOWING PUBLIC NOTICE

SEC. 603. After the date of enactment of this Act, all contract negotiations involving construction, reconstruction, enlargement, operation, repayment of costs, excess lands, rights to water, or other aspects of any project or division existing under or subject to the Federal reclamation laws, or any combination of those subject, shall be conducted in public sessions and pursuant to public notice given in a form and manner calculated to provide the widest practical actual notice to interested parties. All parties conducting such negotiations, including but not limited to the Secretary and his delegates, shall share responsibility for implementing the policy of this section, to assure notice to and participation or observation by the public in all negotiations involving contracts, including amendatory and supplemental contracts, affecting projects or divisions.

SECRETARY'S RULES AND REGULATIONS TO BE PUBLISHED

SEC. 604. Beginning not later than one year after the date of enactment of this Act, the Secretary shall take no action pursuant to or in implementation of the Federal reclamation laws, except in accordance with published, formal rules and regulations promulgated by the Secretary. Those rules and regulations shall, in addition to other matters, be explicit in making provision for the disposition of excess lands. All such rules and regulations shall be published in the Federal Register not less than thirty days before becoming effective. All such rules and regulations, including amendments thereto, shall be subject to the provisions of subchapters I and II of chapter 5 of title 5, United States Code.

DEPARTMENT OF AGRICULTURE PROGRAMS FOR FAMILY FARMERS

SEC. 605. In order to facilitate the successful operation of the other titles and purposes of this Act, the Secretary of Agriculture is authorized and directed to make available, to the maximum extent authorized by law, to family farmers in each irrigation district, those benefits provided to farmers and stockmen under programs administered by the Farmers Home Administration, the Agricultural Stabilization and Conservation Service, the Soil Conservation Service, the Federal Crop Insurance Corporation, the Extension Service, and by such other agencies and offices of the Department of Agriculture as may be appropriate.

AUTHORIZATION OF APPROPRIATIONS

SEC. 606. For the fiscal year beginning October 1, 1977, and each fiscal year thereafter, there are authorized to be appropriated such sums as may be necessary to carry out the provisions of this Act.

O

SOWING THE TILL

A Background Paper on Tax Loss Farming

by

Jeanne Dangerfield

Corporate Research: A.V. Krebs

© 1973

Agribusiness Accountability Project
1000 Wisconsin Avenue, N.W.
Washington, D.C. 20007
(202) 338-3976

The Agribusiness Accountability Project is a non-profit, non-partisan, public interest group based in Washington, D.C. The Project is funded by a grant from the Field Foundation and is sponsored by the Center for Community Change and the Project on Corporate Responsibility

---

TABLE OF CONTENTS

Chapter ... Page

INTRODUCTION....3

TILLING THE TAX LAWS: TAX BREAKS IN FARMING....4

BECOMING A FARMER: THE LIMITED PARTNERSHIP AND OTHER DEVICES....9

FAVORITE TAX LOSS CROPS....12

SOME IMPACTS OF TAX LOSS FARMING....15

TAX LOSS FARMING AND BEEF....21

THE HIDDEN FARMERS: WHAT WE DO NOT KNOW ABOUT TAX SHELTERS....26

RECOMMENDATIONS....23

Appendix A: Profiles of Five Limited Partnerships Investing in Agriculture....32

Appendix B: A $100,000,000 Who's Who of Syndicated Farming....40

INTRODUCTION

In the past twenty years, the tax load on farmers has in-
creased by 297 percent. The price the farmer receives for his
product has increased by only six percent in that same period.
Such skyrocketing production cost, coupled with low farm income,
has made farming a mighty tough row to hoe. In fact, there
are only about half as many farmers today as there were in 1952.

But, while many farmers have been losing and going under,
an increasing number of corporations and wealthy urbanites
have learned how to lose at farming and still get away with a
profit. Rather than working the land, they work the tax laws.

In detail, it's complicated. In concept, it's simple:
ose money in farming and write those losses off against non-
arm income. The impact is to lower the amount of income that
s taxable. There's a bonus: the losses are not real, only
aper losses. That is because the costs of "farming" can be
ritten off on one year, even though the product will not be
old until another year. Thus, there are tax losses this year,
rofits next year. And those profits can be re-invested for
till another tax loss. In 1972, these farm losses cost the
.S. Treasury over 840 million dollars.

While the rich get richer, the family farmer is competi-
ively disadvantaged. Agricultural markets are distorted, the
ublic treasury is avoided, land values are artificially inflated
d consumers are faced with a threat to food prices and supplies.
 is a losing proposition, unless you are rich.

Tax shelter farming is made possible by special tax con-
essions intended to benefit real farmers. As far back as the
ternal Revenue Act of 1916, special provision was made for
rmers on the basis that they lack sophisticated accounting
chniques, that it is difficult to appropriate expenses to
rticular crops or animals, and that there are sizeable fluc-
ations in annual profits in farming. Such considerations
main appropriate, even critical, to family farmers.

But John Connelly, Jack Nicklaus, Ronald Reagan and Jack
nny are not family farmers. Neither are thousands of high
come doctors, lawyers and other professionals who enjoy
nning in agriculture by losing. Tax shelter farming is a
ch man's game. The newspaper advertisements soliciting big
ty investors in these agricultural schemes specify that no
 need apply whose tax bracket is less than 50 percent.

TILLING THE TAX LAWS:
TAX BREAKS IN FARMING

The key to tax shelter farming as a haven for the surplus dollars of city investors, is a series of tax loopholes built into revenue acts that go back to 1916. The legislative history of these provisions shows the Congressional intent to provide for the special problems involved in farming.

In practice, however, those laws have catered to the special needs of wealthy investors and corporations, and, in many cases, they have led to new problems for the farmers they were designed to benefit.

Cash versus Accrual Accounting

The first of the special provisions for farmers was in the Revenue Act of 1916. It gave the farmer the option of using either the "cash accounting method" used by individuals on their tax returns, or the "accrual accounting method", required of all other businesses, to compute their yearly income. Under the accrual method, taxpayers must inventory their goods held for sale at the end of the year and add the value of these goods to the total sales from the year, subtracting last year's inventory value, to arrive at the year's gross income. Under this method, an expense or sale is ruled to be effective at the time the goods purchased actually change hands.

Taxpayers using the cash accounting method are not required to keep inventories. Their income is computed on a basis of cash actually received during the year from the sale of products. An expense or sale is considered incurred at the moment the money changes hands.

If a cash farmer pays for $1,000 worth of feed in December, he can deduct the cost in that year, even if the feed is not delivered until January of the following year. Under the accrual method, the farmer could not take the deduction until the feed is actually delivered.

Cash accounting is important to both the farmer and the farm investor. To the farmer, cash accounting means some flexibility in adjusting year-to-year income; it also simplifies bookkeeping chores.

To the tax-loss investor, who is generally in the position to be able to afford the accountants and bookkeepers, cash accounting creates "artificial losses" by allowing premature deductions of expenses against high non-farm income. This lets him postpone paying taxes on that percentage of his income equivalent to the amount of his farm deductions. In effect, he gets an interest-free loan from the government. When the product is finally sold and profit realized, the public's interest-free "loan" to the investor can be extended if the investor chooses to reinvest his profits in another farm venture.

Benefits to the wealthy investor are compounded, since the greater the investor's income, the greater the value of each deductible dollar. The actual subsidy received by the tax-loss investor increases in proportion to his tax bracket. For example, an investor in the 50% tax bracket would normally pay half of every $1000 of income in taxes. If he can deduct a $1,000 feed expense from his tax bill, however, he has, in effect paid only $500 for the $1,000 worth of feed, the difference between what he would have given up in taxes and the actual price of the feed. The average farmer's income tax bracket is around 20%. A farmer in the 20% tax bracket would save only $200 on a $1,000 feed bill. The richer you are, the richer you get.

There are advantages the city investor, whose investment cash is essentially surplus, has over the farmer, who is actually counting on his farm investment for a livelihood. First, if a profit is realized when the crop is sold, the tax shelter farmer can reinvest the total amount in another tax-loss venture to earn more. The farmer, however, must live off his profit and must pay taxes on it. Secondly, in a situation in which actual profit is not realized, the city farmer who has invested in tax farming for an independent income still is ahead of the game from the savings he realizes on his tax bill. He can lose and still win. To the farmer, who depends on his farm profits for support, the real income and the farm income are the same, and a non-profit venture means exactly that.

Capital Expenditures

Under the cash accounting method a farmer can deduct expenses of materials and services that actually go into or are a part of, a final saleable product--such as feed, seed, stud fees, and management services. Other farm inputs, such as machinery and equipment and improvements to barns and farm buildings, are classified as capital assets and are not immediately deductible. The definition of a capital asset is an asset that is part of the tools and machinery of running the business--an asset that is not incorporated in any one final end product, but that can be used to develop many end products over a period of time. The cost of these assets is generally recovered through depreciation, which involves deducting a certain percentage of the cost of the item over a fixed number of years equal to its useful life.

Orchards, vineyards and dairy and breeding herds, because they are not actually products to be sold, but rather they produce commodities that are sold, are capital assets. The cost of maintenance, upkeep and development of these capital assets is called a capital expenditure and in non-farm businesses would not be immediately deductible. Under the Revenue Acts of 1916 and 1919, farmers received another special privilege: the costs of raising livestock held for draft, breeding or dairy purposes, and the costs involved in developing vineyards and fruit and nut orchards, are all fully deductible, even though they are capital expenditures.

Capital Gains

The principles of cash accounting and related deduction benefits enable the investor to postpone taxes, but eventually the product, or capital asset, will be ready for sale. At this point the investor and the farmer are both liable for taxes on any profit which might occur from the sale, and the tax owed the government is based on the individual's tax bracket for his total income.

The Revenue Act of 1942 included a special provision-capital gains treatment on farm assets such as trees and vines. A later court decision further expanded this provision to include draft and dairy breeding animals. This means that income from sales of these capital assets, which have been held for a specific minimum period of time, are taxed at rates equivalent to half the person's regular tax bracket. Furthermore, capital gains taxation has a 25% minimum of gains of less than $50,000 and a 35% maximum on gains in excess of $50,000. The holding period to qualify for capital gains tax rate varies from asset to asset: the holding period for cattle and horses, for example, is two years. For other livestock, it is only one year.

The rationale behind this privilege is the special nature of farming. Many farm products--such as grapes, tree fruits and cattle--require a substantial time of investment before they can return a profit. It might take an orchard or vineyard

4 to 8 years to reach maturity and a breeding herd at least four years before they bring any profit. There is a great deal of risk involved in farming, due to such factors as weather, disease, accidents, and price fluctuations.

The capital gains treatment for agriculture, like the other special agricultural provisions, works out better for a wealthy investor than for a real farmer. Again, the benefits increase proportionately to the taxpayers income bracket. For example, if an investor sells an orchard for $1,000 after holding it the prescribed amount of time, he is eligible for capital gains treatment on his income from that sale, and need only pay taxes at half of his normal tax rate. However, if he is in the 70% tax bracket, one half his normal tax rate exceeds the capital gains maximum on amounts less than $50,000 which is 25%, so the tax bill is reduced by another 10% for a total of $250,000. The 20% tax bracket farmer also saves half his tax bill on his sale, but there are two disadvantages. First, his savings on the $1,000 sale is only half of $200, rather than half of $700, and secondly, in many cases, to take advantage of the capital gains opportunity a farmer would have to sell his source of support. This tax "benefit" puts teeth in the old adage that farmers live poor and die rich.

The farm investor, on the other hand, with little commitment to a particular plot of land, area, or commodity, can liquidate his interests, make his profit, and reinvest elsewhere.

Other tax benefits

Cash accounting, deduction of capital expenditure and capital gains treatment are the keys to understanding tax shelter farming, but there are certain other benefits available to farmers which have implications for the non-farmer investor, too. Under the Revenue Act of 1971, the investment credit was made available for purchase of livestock and various kinds of real property, such as feed bins and farm buildings. The investment credit allows a dollar-for-dollar reduction of the tax bill of an amount equal to 7% of the cost of eligible property. The merit of a credit, as opposed to a deduction, is that it is equally beneficial to taxpayers in all tax brackets. Furthermore, a limitation is built into the code providing that the credit, or a percentage of the credit, will be recaptured if the asset is not held the length of its useful life.

A similar restriction is placed on special deductions available to farmers for soil and water conservation and land clearing costs, specifiying that the land must be held five years, or the deductions will be disallowed completely. The land must be held ten years to qualify for full recognition of the deductions as a legitimate expense. Despite the limitations, however, it is the top bracket investors who can best afford to make these improvements, sell the appreciated land, pay only capital gains tax, and make a profit. These land improvement deductions are particularly attractive to the big city professional who picks up a piece of country property for weekend recreation, such as hunting, fishing, camping and so forth. Not only can this investor improve his land for his recreational needs and get a tax deduction for doing it, but he also increases the re-sale value of his property.

A final inducement to investing in ranching is the availability of accelerated depreciation rule (ADR) on certain assets, including cattle and real property. Although the cash-basis taxpayer does not inventory cattle born into the herd, he can use the ADR to depreciate rapidly any animal he buys to build up the herd.

8.

BECOMING A FARMER:
THE LIMITED PARTNERSHIP AND OTHER DEVICES

Various arrangements are available to the investor who wants to become a farmer for tax purposes. In fact, it is considerably less risky and less expensive to become an investment farmer than to actually farm the land for a living. The Chairman of the House Subcommittee on Agricultural Appropriations commented last year on the family farmer's investment plight, when he noted that it takes "about as much money to start a farm as to start a bank, and about as much nerve as to rob a bank."

For the city investor, steel nerves are less important than a good tax accountant. The investor's "management" responsibilities are limited to his ability to account for his farm gains and losses on April 15th. The investment farmer need not ever see his farm or even own more than a percentage of a beef herd. He is considered a farmer in the eyes of the IRS so long as he is the owner or part owner of any farm assets that will be developed for profit.

"Tax shelter farmers" are not only individuals. A corporation is a legal entity and can reap the same benefits in farming as do individual taxpayers. Individual stockholders of a corporation are not considered farmers, however, since the corporation is considered responsible for gains and losses, which do not flow through directly to the stockholder.

Limited Partnerships

The primary mechanism which makes "farmers" out of tax shelter investors is the limited partnership. It is an organizational form that has been used in oil, gas, and real estate for some time, but it is relatively new in agricultural enterprises. A limited partnership allows the pass-through of profits and losses--and tax deferrals--straight to the individual partners. The partnership itself is not taxed, but rather each partner is taxed in proportion to his share of the venture.

Partnership status, as opposed to classification as a corporation, is necessary to assure this benefit. A limited partnership will not be so defined if it has two or more of the attributes that define a corporation. These traits are: limited liability, continuity of life, transferability of interest, and centralization of management. In all limited partnerships, liability is limited to the amount of the partner's actual investment. Limited partnerships use various technicalities to avoid the other traits of a corporation: (1) continuity of life is avoided by setting a time limit, but often giving the option to renew the venture; (2) management is vested in the general partner, but the limited partners often retain the same rights held by a corporation's stockholders, such as the ability to remove or replace the management (the general partner) and to vote to dissolve the operation; and (3) transferability of interest is usually possible in a limited partnership, but it requires the formality of the consent of the general partner.

A limited partnership is formed by first creating a corporation to act as the general partner in the venture. In most cases an existing corporation establishes a subsidiary corporation for this purpose, and the subsidiary then acquires its capitalization, line of credit, and, frequently, land from the parent organization. The general partner will be responsible for the management and liability of the venture. State laws specify that such programs must file with the state securities commission, but only if interests will be offered to more than a minimum number of potential investors (ten in California), which exempts many from the registration requirement. In addition, registration must be made with the SEC if an inter-state offering is planned. Offerings are then made either directly to the public or through security dealers.

Feedlots and food distributors, such as Montana Beef Industries, Inc. and Cal-Maine Foods, Inc., often set up partnerships to assure clientele or capital for their services. Railroads, oil companies, and utilities figure prominantly in the organization of limited partnerships, since they have available land for such projects. Insurance companies, too, are appearing as farm venture backers, partly because they hold the mortgages on a large amount of farm land. Southern Pacific, Atlantic Richfield, Buttes Gas and Oil, Kaiser Aetna, Apache Corporation, and Hartford Life Insurance are just a few of the companies becoming interested in farming.

Agency Services

A different possibility for the investor would be to enter into a contract with an agency that specializes in managing farm investments. Oppenheimer Industries is one such firm that will purchase breeder or feeder cattle for clients, contract with ranchers or feedlots to care for them, and arrange putting the cattle on the market. Kaiser Aetna's Ventura Operations in California will manage absentee owner's citrus or walnut groves.

In a limited partnership arrangement the investor owns only a percentage of the total operation. Under an agency agreement, the investor becomes the legal owner of a plot of land or a herd of cattle, and he can use these holdings as collateral for his personal loans. In agency set-ups the investor raises his own financing, therefore having the opportunity to get a better rate than may be available through the partnerships. The investor generally sets up a drawing account from which the agent makes investments. The agent is paid a flat fee per head of livestock or per acre managed or, in some cases, a percentage of the gross sales.

Individual Placements

A third possibility for the investor is to make direct contact with his investment, by personally arranging to buy land or a rancher's cattle, for example. In order to take advantage of tax benefits, the investor must be considered to be engaged in farming for a profit. If the IRS determines the investor-farmer is just in it for pleasure, recreation, or some other non-business purpose, his deductions may be disallowed. The investor could choose to hire a farm manager to look after his property for wages, or he might opt for a share-lease arrangement where risk and profit are split between himself and his manager. The first of these alternatives has drawbacks for the average business person because his employees lack the incentive to strive for maximum profit potential: investors are advised that "it's usually best to consider a farm near enough to your home so you can inspect it now and then." In the case of a corporation, a subsidiary might be created to be devoted to farming, but whose gains and losses would be reflected on the tax bill of the parent corporation.

Leveraging

A principle common to most farm investments is the concept of leveraging one's capital. That is, using one's actual cash investment in the venture as collateral for securing a loan to increase the total available working capital. Tax laws provide that an investor can deduct not only the expenses incurred by the actual cost to him of his investment, but also expenses incurred by borrowed money. In other words, if the investor's actual cash contribution is $5,000, and that money is used as collateral to borrow an additional $10,000, the investor may be able to make deductions worth two to three times the real cost of his investment.

FAVORITE TAX LOSS CROPS

Not all areas of agriculture are equally attractive to the tax-loss farmer. The selection of a crop or livestock venture will take into account the desire of the investor to maximize his tax shelter assets, like deductions and the possibility of converting ordinary income to capital gains, while minimizing his non-shelter assets, such as machinery and buildings. In addition, the investor will want to invest in assets that can be used as collateral for maximum borrowing power, so that he can leverage or "pyramid" his money to make each dollar go further.

Whatever tax shelter he choses, the reasons that a prospectiv investor pours his capital into a specific farm crop or product hav little to do with market demand, soil suitability, production efficiency or other factors which are the major concerns of the working farmer. Rather, the decision is based on the potential for maximum tax write-off.

From the point of view of the tax loss farmer, the areas which currently seem most attractive in agriculture are orchard and vineyard development, cattle breeding herds, and cattle feeding programs. The investors' orchards and vineyards are plante and developed. At maturity, the trees and vines will yield fruit and nuts. In the years before the orchard or vine reaches maturity the investor can make liberal deductions against his non-farm incom When the investment begins producing fruits and nuts for sale, thes products are taxable at ordinary income rates, but the orchards or vines themselves bring capital gains.

The investor in breeding herds gets similar benefits. The purpose of breeding is to increase the size and quality of the herd and the investor can deduct the expenses of feeding and maintaining the animals while he is doing this. The breeder sells male calves born into the herd and culled animals (those not up to the quality of the herd) for beef. Taxes on the proceeds are paid at ordinary income rates. However, animals held for two years or more will bring capital gains when the herd is sold.

Cattle feeding programs involve an investment in young cattle that will be fattened for slaughter. Cattle and feed are bought for the investor, and the animals are put in a feedlot where they are confined until heavy enough for slaughter for meat. This proce usually takes about six months, so the investor's money is returned within a year. Fattened animals will not bring capital gains, but the ability to pre-pay the feed bill and other costs of maintaining the animals are sufficient enough attractions to the tax-loss investor.

Variations of these three basic tax loss themes sometimes crop up. An arrangement quite similar to the cattle feeding programs is available in egg production. The principle is the same in both operations: a large end-of-the-year investment in feed and chickens will provide first year write-offs; returns will come back with the sale of eggs the following year. Cal-Maine, Inc., a holding company, whose subsidiaries conduct a fully integrated commercial egg business, is the backer of such a venture called National Farming Program 1972, (See Appendix A) offering potential investors $6,000,000 of interests in the egg business. The irony of the situation is that nobody else seems to be making any money on eggs; the egg industry is plagued with over-production and poor returns to farmers.

Some of the more bizarre tax loss schemes demonstrate the ingenuity of promoters in their efforts to find a tax dodge in every commodity. Recently a novel tax-loss idea was introduced for dairy breeding herds. A promoter came up with a plan allowing investors to buy three-month old heiffer calves that would be bred in fifteen months, then sold to dairy men just before calving. Since cows would be held for a period of 24 months, investors are promised the chance to get capital gains on the sale. Although the cows are theoretically held for breeding purposes, they actually are held for sale, and it seems unlikely that investors will receive a favorable ruling on this point from the IRS.

Work is also being done on a similar program which would lease rather than sell dairy cattle. This effort is probably inspired by what was once called the Codding "Rent-a-Cow" Program. Codding offered investors the chance to lease a pregnant cow for a year, keeping any calves born to her during that time. If the leased cow's offspring did not live, the investor was assured of a replacement calf. This round-about scheme was devised so that the price of the cow could be deducted rather than capitalized. One would guess that a lease-a-dairy-cow program would simply have investors lease their pregnant Holsteins to the dairyman, who would then milk the cow during its useful life.

Within the programs described as having the best potential for the tax-loss farmer, certain commodities tend to come in and out of popularity. In the 1960's investor money was going into citrus and almonds. But, the Tax Reform Bill of 1969 required the costs of developing citrus and almonds to be capitalized, rather than keeping these costs deductible, so investors turned to pistachios, apricots, and walnuts. Now because of rising popularity and increased consumption of wine in the U.S., investors are rushing into grapes.

The entire grape acreage in California last year consisted of 400,000 acres, of which 93,000 had been planted in the past three years--53,000 acres in 1972 alone. Projected new plantings for 1973 may exceed 70,000 acres. Two partnerships alone will plant 50,000 acres. By 1973 many of the new plantings, mostly in varietal wine grapes, will be ready for harvest.

Meanwhile, Wells Fargo Bank is labelling the wine industry, "one of the brightest spots in California's agriculture." Wells Fargo is backing its words with dollars by financing grape syndicates.

The Southern Pacific Railroad is among those jumping on the grape train. Southern Pacific is planning a joint venture with Russell Giffen, a grape grower from the San Joaquin Valley. The railroad is investing $2 million, 1000 acres of land and miles of surplus telegraph wire which was left over from the switch to microwave radio several years ago. The wire will be used to support the vines. Giffen will then put another 1,000 acres in the venture, called Golden Vinyards, which Southern Pacific estimates will bring a net income of $400,000 annually by 1975.

SOME IMPACTS OF TAX LOSS FARMING

Such tree crops as apples, peaches and avocados are ideally suited to tax loss farming. All development expenses during the first years before the orchard reaches maturity are deductible and capital gains are realized when the investment is sold. For the full-time farmer, trying to make a living from tree crops, the tax loss farmers pose a serious problem.

Tree crops account for only a very small percentage of farm land (.3%) and only 3.9% of the total farm revenue. Producers of these commodities face an inelastic market demand for their products. Even a seemingly insignificant increase in production may mean that the price a producer can get for his product will drop and that surpluses are created.

Although the farmer gets a tax subsidy from the govern- ent by deducting development expenses, the subsidy is not necessarily ufficient to offset loss of revenue from depressed prices. nd family farmers are more interested in fair prices than a ax subsidy. Oversupplies and depressed prices of oranges nd almonds prompted growers in 1969 to petition Congress to evoke their privilege of deducting orchard development ex- enses. As a result, citrus and almond growers are now equired to capitalize those development expenses.

When lowered prices are taken into account, the value of e tax deduction is reduced radically for real farmers. An published report from California found that low prices in 72 reduced the peach farmers' deduction to only 12% of its tential value, the apple growers' deduction to 15% of value d the avocado producers' deduction to 23 per cent of value. ricot producers are actually losing money because tax breaks not make up for the low price for apricots in an over- pplied market.

Sudden oversupply within a commodity has disastrous fects on the smaller producer, who is always the first to ffer when the market is squeezed. At recent Senate hearings d Ownership, Use and Distribution in California, one ily farmer described the impact of an oil company's quickie dodge. The company planted several thousand acres of ng peaches on the western side of the Fresno Valley. As esult, the market was glutted and many growers were forced let their peaches rot on the trees. The oil company was t with a tax write-off and the farmers were left with all peaches they could eat.

Tax-loss farming threatens sudden market fluctuations in nearly every commodity suitable to its requirements. Walnut growers, who are concerned about tax-loss threats to their industry, will be interested in the Kaiser Plan for Walnut Production. A recent article in Western Fruit News stated that Kaise Industries expects soon to be the world's leading producer of walnuts.

As economist, Michael Perelman points out in a recent paper on unfair competition in agriculture, a corporation with vertical integration potential is not as vulnerable to low market prices as an individual producer. "As a corporation like Tenneco goes into the almond canning business, it can use its leverage from its large production of almonds to force down almond prices. The losses to Tenneco as a farmer are more than compensated by the gains to Tenneco as a buyer of almonds."

While financial giants like Wells Fargo and major corporations like Southern Pacific are pouring enormous amounts of capital into limited partnerships, the family farmer finds the credit door slammed in his face. The agricultural loan officer for California's Bank of America stated that "of course the commercial farm in our opinion, has to produce a gross income of at least $20,000 a year annually. Anything below that we consider a very small farm, and in California $20,000 a year is very small."

John Deere and Company makes farm loans as "a sales tool," but it's not the average farmer who is sought out, as the corporate president recently made clear: "We do not attract this business by taking excessive risks. Our credit standards have been high... our losses have been minor."

Confucius said that "The best fertilizer is the footsteps of the landowner." The current tax system works against that wisdom, fostering absentee ownership. High-income lawyers, doctors, movie stars, athletes and other investors might not recognize fertilizer, even it was on their boots, but they do recognize a good tax deal.

Most city investors who are encouraged to enter agriculture know little about farming operations and can provide little guidance or oversight. Promoters of agricultural ventures often charge a set fee per acre or head of livestock managed. There is often no real consideration given costs of production--the emphasis is on generating more commissions.

When the tax loss venture goes to market, promoter concern with volume rather than profit can result in price cutting. Again, this kind of non economic competition is most felt by the smaller operator. And, price cutting on this level level has little chance of being reflected in the Consumer's food bill since extra profit dollars are absorbed by middlemen and promoters who have interests in the ventures.

Consumers have a vested interest in the farmer's welfare. America's abundant supply of "cheap food" has depended on the skill and diligence of family farmers who know their land, care about their production, and oversee a manageable acreage. Tax loss investors who have little, if any, personal commitment to producing commodities for profit, have the potential to force these family farmers out of business. As the number of family farmers who are unable to stay in production increases ., the consumer will find himself dependent on corporate and syndicated enterprises for food.

It is the existence of a large number of relatively small-scale indepedent farms which has provided pressure to keep prices competitive. As the small operations are taken over, and the larger firms and ventures no longer have an incentive to keep costs and prices down, the consumer will eventually have to pay. Concentration of agricultural production increases the potential for collusion, market sharing, restrictions on entry of new firms, and out-right control of food supplies, quality and prices.

A look a Penn Central, Lockheed and Litton Industries indicates that corporate efficiency is not all it's cracked up to be. Agriculture may be more of an art than it is a business or a science, and the casualty list of corporate "farmers" is not encouraging. Fortune magazine recently listed some of the more spectacular failures:

No public agency formally keeps track of the financial records of big corporate farms. But Agriculture Department officials can rattle off the names of more than a dozen spectacular failures. Among them:

- Gates Rubber Co. tried for three years to grow sugar beets, corn, and vegetables on 10,000 acres in eastern Colorado before selling off its land and fleet of expensive equipment in early 1971.
- In 1967, CBK Agronomics, Inc., began acquiring what was to have been 80,000 acres in Missouri, Texas, and California, planning to grow diversified crops and feed cattle, but gave up last year and went into coal mining.
- Multiponics, Inc. (originally Invanhoe Associates, Inc.), drained or cleared 35,000 acres in Florida, Arkansas, Mississippi, and Louisiana in 1969 and produced two crops of soybeans, cotton, and grain. But it ran into financial problems, failed in an effort to sell a public stock offering, and is now in bankruptcy proceedings.
- Great Western Ranches, Inc., assembled a four-million acre complex of operating orchards and ranches in the West, along with timber and recreational land, paying the owners with stock. It went bankrupt last year.

Tax-loss ventures, too, can do badly in agriculture. One of the most notorious examples of a badly managed investment is the Black Watch farms fiasco. In October of 1970 Black Watch collapsed on 585 doctors, lawyers, brokers, and other city investors who had thought beef breeding would be the answer to their tax problems. Instead, the investors stand to lose $40 million of the $50 million they had put into cattle. Black Watch failed primarily for two reasons: (1) the promoters made unreasonable guarantees of returns, and

(2) the venture lacked experienced management that understood the cattle business.

In 1967 the original promoter sold Black Watch to Bermec Corporation, a truck leasing firm run by H. L. Meckler. After taking it on as a struggling family-run operation, Meckler turned Bermec into a financial giant by using the leveraging principle: Pyramid your capital for all it is worth. Looking for a new challenge, Meckler was struck by what appeared to him to be great similarities between equipment leasing and cattle breeding. Any farmer could have told him ahead of time that cattle are not as predictable as machinery and are subject to disease, accidents, and weather.

Black Watch promised its investors a $2000 return per cow and guaranteed to replace any lost from six months to its ninth birthday. A computer and team of 8 programmers were entrusted with keeping track of investor cattle, but nothing seemed to work out. Records were kept improperly, worthless cattle were bought sight unseen, poor animals were not removed from the herd, calf crop was only 60% (90-95% is normal), and tremendous costs bogged down the venture. The computer never got things straight. $200 per animal per year was needed to pay executive salaries, a staff of 75 and other expenses at the company headquarters. The company's total operating costs came to $424 per animal per year.

The Black Watch pyramid collapsed because it was built on worthless cattle and bad management. The Black Watch collapse was felt by more than unlucky investors. Twenty-three independent farms and ranches filed suit for $1.5 million owed them on maintenance contracts. Presumably one of the advantages of encouraging non-farmer investment in agriculture is that it takes some of the risk and financial burden off ranchers who contract to manage investor cattle. The danger in such an arrangement is that if the investor fails to come up with the maintenance payment, the rancher is out of luck. An added tragedy was the plight of 30,000 abandoned cattle on 70 ranches.

The Black Watch incident did not deter investor interest in the cattle industry. Some of the appeal of cattle seems to be based on psychological needs--for many investors, a deal in cattle is the fulfillment of a childhood dream to play cowboy, tinged with the glamor and intrigue of becoming a cattle baron. The prospectuses that describe the various agri-deals appeal to the latent gentleman farmer. As one ad put it, "the prime market for the new agribusiness participations are those legions of desk bound executives who have always thought they wanted to get closer to the land if only through proxy."

19. 20.

TAX LOSS FARMING AND BEEF

Cattle offer many real economic incentives to the investor beyond tax benefits. Beef prices are high, and the demand for beef is increasing steadily. USDA predicts that per capita consumption of beef will jump from 113.4 pounds a year to 130 pounds per year by 1980. Cattle, furthermore, require little or no investment in machinery, make good collateral for loans, and provide the investor with the opportunity of making large premature deduction by pre-paying the cost of feed.

Tax-loss farmers focus on three areas of the beef industry--purebredbreeding operations, commercial cow-calf breeding herds, and cattle feeding. Purebred breeding operations breed registered animals to produce foundation stock that will produce more and better meat. Since the laws of genetics state that an animal will pass his characteristics on to his offspring, bulls born into these purebred herds are sold to commercial breeders who wish to improve the quality of their herds. Commercial breeding herds produce calves for sale that will be fed and fattened in feedlots and slaughtered for meat.

Profits in beef cattle havehistorically been so erratic that most beef producers in the U.S. do not depend entirely on beef as their sole source of income. Capital gains on their breeding herds help somewhat in easing the burden of these producers. Commercial breeding has long been the domain of a vast number of small, privately-owned, cow-calf enterprises, whose holdings average only 42 head each. Currently over 90% of the estimated 1.3 million farms and ranches that produce beef cows have fewer than 50 cows, yet they produce 80% of the output of beef calves. These smaller operators are under great pressure to expand to keep up with "optimum farm size" estimates for credit and other purposes. A cattle ranch large enough to assure a farmer an adequate income is an operation with at least 300 head of cattle and a $300,000 investment. But small operators are having difficulties trying to expand in the face of inflated land prices, brought about by city investors who are paying $25 to $100 per acre more than the productive value of the land.

City investors do not use the same measures in evaluating the worth of acreage as do full-time farmers. Factors such as the aesthetic beauty, the recreational potential, and the proximity of the property to a metropolitan area generally weigh more heavily in the investor's mind than the capacity of the land to support cattle or the suitability of the soil for feed grains.

Tax-loss farming is having a definite upward effect on beef prices by pushing up one of the factors of beef production--land. The fact that outside investors can, and are, outbidding farmers for acreage has led to a situation where farm land increasingly is scarce--a Texas rancher noted that he knew of no land between Houston and Dallas (250 miles) that was priced in a range economically feasible for farming.

When the tax-loss farmer will pay more an acre than the projected yield of the plot should warrant, it means that all farmers wishing to expand their operations will be forced to pay the higher price in order to expand. This means that rather than trying to make his costs as low as the farmer, the tax-loss farmer effectively makes the farmer's costs rise to meet his. And the tax-loss investor still comes out ahead, because he can deduct interest payments on the purchase price against his non-farm income, and these deductions will be more valuable the higher the purchaser's tax bracket.

Not all tax-loss breeders actually own the land used for grazing their cattle. Usually the general partner of a limited partnership will have legal title to the land, since land is not a good tax-shelter asset. In other cases, an agency will contract with ranchers to graze investor cattle on their lands. Land that is owned by investor groups is frequently planned to be subdivided and turned over to some non-farm use after the investors have received all their tax deductions, a practice which is also contributing to the spiralling costs of land.

The price of land is not the only problem of the small rancher trying to make a living in the beef business. Even more of a threat to the farmer-rancher is the fact that he is suddenly being forced to compete against investors who are not farming for profit. The promoters and managers who look after these investors' holdings frequently charge a flat fee per head or acre managed and therefore have little incentive to get a competitive price on their products.

The prospect of tax-loss farming pushing beef prices up is further increased if one takes a careful look at the operations of a typical tax-loss venture. In many cases it is the organizer of the venture rather than the investor himself who is the real winner on these deals. Arthur J. Groesbeck, Jr., a Los Angeles tax adviser estimated that probably half of all tax shelters were of no value--glib promoters can skim as much as 50% as their take. The commitment of the typical promoter-manager is even less than the commitment of the typical investor towards healthy agricultural production economics.

In the following year, when the cattle are sold, tax on the income will be due, but in the meantime the investor has had interest-free use of money that otherwise would have been paid in tax, and he has the time to decide whether or not to reinvest the returns in another feeding program or convert to breeder cattle for long-term capital gains.

Small feed lots are also affected the trend toward bigness brought on in part by tax loss farming. There are currently 154,536 feedlots in the United States, 99 percent of which are under 1000-head capacity, accounting for 38% of production. Fifteen thousand of these smaller feedlots folded in 1971.

Meisner and Rhodes, economists at the University of Missouri, have reported on the dominance of huge feedlots in the West:

> "Recent developments include the further growth of the very large feedlots and the multiple ownership of large lots. Feedlots of more than 32,000 capacity tripled from 13 in 1967 to 44 in 1971. Cattle capacities (one-time) of large feeding corporations are reported to be approximately 173,000 for Western Beef, 135,000 for Meso Agro, 108,000 for Prochemco and 130,000 for Stratford of Texas, to name a few of the corporate leaders in custom feeding, which each control multiple lots."

The trend to "custom feeding" has increased as "limited partnership" and "agency service" deals have attracted increasing amounts of outside capital into the industry. Feedlots without a subsidiary of their own to attract investor capital, or without affiliations with an independent cattle breeding program, run into problems bidding against the bigger, well-financed operations for feeder cattle. As feeder prices inflate, it is the smaller feedlots that cannot afford to keep their lots full, and many farmer-feeders have given up trying to match the buying and marketing power of the huge Western lots.

The attractions of cattle feeding are sufficient in any case to have produced a rush of investor money into the cattle feeding programs. Prospectuses of cattle programs have multiplied over the past two or three years. Prior to 1969, there was little interest in cattle feeding, but suddenly investor interest caught on so that now one source estimates that 60%

production, since the investor, at least, had to put up the capital.

Of the three kinds of cattle programs, purebred cattle offers the most flagrant examples of abuses on the part of the promoters of these schemes.

One such offering, the Calderone-Curran Ranches, Inc., offered investors the chance to own their own purebred herd of 10 cows for a price tag of $28,570. The securities dealer making the sale would get 6 3/4 percent of the sale amount, and an additional 2½ percent would go to the dealer-manager, making selling commissions a grand total of 9% of the investment. In addition, the purchaser enters into a maintenance contract whereby the company feeds, cares for and breeds the animals in exchange for the assignment upon birth of all bull calves and every tenth heifer calf produced by the herd. Proceeds realized by the sale of culled animals (animals not up to the standard of the herd) would also go to the management company. The difference, furthermore, between the net price of $2571 per head received by the company and the actual cost of the animal (about $400) goes to cover all the costs involved in breeding and maintaining the animals, the costs of arranging financing and making the offering, and the costs necessary to support the supervisory and management staffs. The promoter of this venture is meeting his costs and making his profits whether or not the enterprise turns out to be profitable. On top of that, he shares in 50% of any profits that do return to the venture.

The taxpayer-consumer should be concerned about these promoters. All taxpayers end up subsidizing the tax-loss farmer's venture by way of higher taxes and cut backs in other government expenditure programs that might seem more appropriate for subsidy than the purebred cattle, which unlike the commercial breeding herds, has always been associated with wealth, glamor, and even royalty. The taxpayer, therefore, has a vested interest in the success of the enterprise.

Cattle feeding ventures do not offer capital gains to the investor, but they do give the taxpayer with an unexpected high taxable income in one year a chance to defer all or part of his tax bill to another year when his tax rate may be lower. Cattle feeding funds are also used for a quick shelter until the investor decides what long term shelter he wants. Cattle feeding gives high, first-year write-offs for feed and management expenses of up to 200-300% of the amount of the investment.

Prior to 1969, there was little interest in cattle feeding, but suddenly investor interst caught on so that now one source estimates that 60% of the cattle on feed in California are owned by limited partnerships and cattle feeding funds. A recent study at Texas A & M shows that 90% of the 1.4 million head of cattle being fed in the Panhandle-Plains Region are owned by individuals and groups other than the feedlots, which means a potential investment of around $348 million dollars by tax loss farmers.

The effect of increased dependence in the cattle industry on custom feeding arrangements, sponsored by tax-loss capital, may have long-term implications for the cattle industry. Because the availability of tax-loss capital is responsive to fluctuations outside of the industry, rather than within it, problems relating to the amount and constancy of investment capital may eventually have effects on retail prices. For example, there is usually a substantial increase in investment capital available to feeding programs at the end of the year when taxpayers need a quick shelter. Because of the increased end-of-the-year demand, prices for feeder cattle and feed are forced up during this time. As a result, the increasing demand for feeder cattle may lead to early placement of the younger calves on feed. The younger stock has a slower feed-to-fat conversion rate, takes longer to reach slaughter age, and therefore are less profitable. The rate of return of a calf averages 5.3%, whereas, on a yearling steer, the rate of return is 12.8%. Since feedlots average about an 8% margin of return, the increased use of younger, less profitable calves may lead to increased prices for fed cattle, rather than a cutback in the feedlot's profit margin.

Another disadvantage to the increased dependence of cattle feeding programs on an unsteady supply of outside capital is mainly felt by the smaller operators. In the summer, when investor interest lags, smaller lots, without the help of the promotion staffs and contacts available to the bigger lots, often find the going tough.

THE HIDDEN FARMERS: WHAT WE DO NOT KNOW ABOUT TAX SHELTERS

One of the unsettling things about tax-loss farming is that by all indicators it appears to be a rapidly increasing trend--but no one seems to know very much about it. No substantive work has been done to evaluate either the extent or the impact of tax-loss farming. Certainly a phenomena that has such potential to alter the whole structure of food production in this country deserves more attention.

Secretary of Agriculture Earl Butz, who likes to tell farmers that he is their "cowhand on the Potomac," has yet to put himself or his Department on the line in opposition to tax-shelter "farmers," even though real farmers are being adversely affected. In February of this year, the House Ways and Means Committee held three days of hearings on agricultural taxes, but neither the "cowhand" nor any other USDA official bothered to appear or submit a viewpoint.

The Department of Agriculture has exactly two staff members working on tax-related issues in agriculture. A third staff member has informally been keeping track of limited partnership offerings filed with the SEC. So far, USDA has come out with only three short studies touching on the problems of tax-loss farming, the first of which appeared in May of 1972. All three studies have concentrated on the methods rather than on the impacts of tax- loss farming.

A few facts can be gleaned from some of the work coming out of the land grant colleges, but the problem with this material is that it tends to be area-specific rather than providing a comprehensive picture of the problem. Texas A & M has produced a study of the financial structure of the Texas beef feeding industry, for example, and work is being done at the University of Missouri on cattle feeding. By far the most thorough thinking on the subject of the current and potential effects of tax-loss farming has been done by Hoy Carmon and Charles Davenport of the University of California. Carmon has worked on cattle breeding and feeding, and on orchard and vineyard development. But there are still many holes to be filled in, and it is hard to evaluate effects of something so little is known about.

The National Coalition for Land Reform found that neither the California Department of Real Estate, the State Department of Agriculture, the Commissioner of Corporations, the U.S.

Department of Agriculture nor the Securities and Exchange Commission had any comprehensive idea of the extent and impact of tax-loss farming. No one even seemed to know what crops were being focused on, how much acreage was involved, or whether anyone was checking to see if the quality of soil was suitable for the anticipated crop.

Part of the problem in determining the extent of tax-loss farming is that many farm ventures are exempt from filing with state or national regulatory agencies because they plan intrastate offerings or they have less than a minimum number of partners. Agencies that manage investor herds are not required to file prospectuses with the SEC no matter what their size, since they are ruled to be providing services as opposed to offering interest in securities. No one knows how much acreage is "farmed" by individuals who have contracted with these agencies or those who have made their own arrangements to become "tax loss" farmers.

RECOMMENDATIONS

> "If the government objects
> to tax avoidance, it
> should change the law."
> J. P. Morgan

In 1968, Orville Freeman, then Secretary of Agriculture, wrote that "We believe there are serious problems in the area of tax treatment of farm income, and that these problems can be remedied...We strongly urge passage of legislation which eliminates existing 'farm tax haven's for individuals and corporations with substantial nonfarm incomes." He was supported by an Assistant Secretary of the Treasury, who wrote that "When a taxpayer purchases and operates a farm for tax purposes...this cannot help but result in a distortion of the farm economy, especially for the ordinary farmer who depends on his farm to produce the income needed to support him and his family."

In 1969 Congress took a token step to limit some of the abuses in tax-loss farming by requiring farmers with losses exceeding $25,000 in any one year to establish something called the Excess Deductions Account (the EDA). This provision requires that every dollar of loss over $25,000 will reduce the amount of income qualified taxable at the capital gains rate.

The EDA provision has had little effect, however, in deterring tax-loss farming. To some extent it has discouraged interest in beef breeding--the number of prospectuses offering partnerships in beef breeding do not seem to have increased appreciably since 1969, but neither do they seem to have decreased. Oppenheimer Industries reports that the EDA has had little effect on their breeding operations. The EDA has no effect whatever on the kinds of tax-loss farming where capital gains is not a factor, like feeding and egg production.

By postponing action on tax-loss farming, the chances of ever correcting the situation become dimmer and dimmer. Beef feedlots already are becoming dependent on the financing provided by tax-loss farmers. When Congress failed to enact effective limitations in the Tax Reform Act of 1969, promoters took it as a sign of tacit approval, and tax shelters have proliferated.

The Agribusiness Accountability Project calls on the Administration and on Congress to initiate steps immediately that will eliminate tax-loss competition with America's family farmers.

(1) Tax loss farming has negative impact on farmers and on consumers. The U.S. Department of Agriculture has taken no position on the issue. The Agribusiness Accountability Project calls on Secretary of Agriculture Earl Butz to make a policy statement of the Department's position on the subject of tax loss farming.

(2) Congress is urged to devise legislative methods that do not promote unfair competition in farming by giving proportinately more benefits to the wealthier taxpayers. Such possibilities include:

-- imposing an outside limit on the amount of farm deductions that can be used to offset non-farm income in any one year, but providing for loss-carry back and loss-carry forward privileges for losses exceeding that amount so that farmers would not lose the ability to make legitimate deductions.

-- placing a restriction on the percentage of allowable deductions to be claimed by taxpayers whose effective tax rate exceeds a set figure.

-- changing the status of certain farm expenses from deductions to tax credits, so that all farmers would receive a tax credit equal to a straight-across the board percentage of their expenses.

3) Administrative agencies are asked to take action to correct tax-loss farming abuses:

-- the Internal Revenue Service is called on to deny partnership status to the limited partnerships in agricultural ventures, which would thus subject the venture to corporation tax and disallow the pass-through of gains and losses to investors. This can either be achieved by IRS rulings that such ventures fulfill two of the four characteristics that are used to define a corporation, or that the operation is not profit-oriented.

- the Treasury Department is asked to take administrative action to disallow limited partners, whose liability is theoretically limited to the extent of their investment, from making deductions that exceed their actual cash contributions to the venture. This can be accomplished by amending IRS Regulation 1.752, paragraph (e).

- the SEC is urged to tighten disclosure requirements by

  (a) restricting further the regulations on who must file farm offerings

  (b) requiring agencies offering management services to investors to file for registration and supply information on the number of their clients and the amount of acreage controlled

  (c) requiring annual public disclosure of the financial status of limited partnerships

  (d) requiring prospectuses to spell out dangers of over-planting in particular commodities.

(4) State and local governments should take measures to protect their rural constituencies from the potential deleterious effects of tax-loss farming on their communities, for example:

- requiring permits for any limited partnership, where either, an offer will be made to more than ten individuals, more than five partners will be involved, or the total investment in the venture exceeds more than $200,000.

  The approval of such permits would take into account potential negative impact on the farm community and the stability of the industry or crop planned for development.

-- an alternative approach would have communities adopt policies that would levy a special tax or require special zoning on land that will be farmed by an absentee owner.

(5) The AAP calls for a full-scale public inquiry into the extent and potential impact of tax-loss farming.

-- the Department of Agriculture should initiate a thorough, public investigation of tax-loss farming, with particular emphasis on the acreage, crops, and commodities affected and the implications of such on farmers and rural communities.

-- concurrently, an evaluation should be made of alternative sources of supply of capital that could be provided for farmers, ranchers, and feedlots now dependent on this kind of outside capital.

-- the Joint Committee on Internal Revenue and Taxation is urged to speed up the release of of its current study of the legislative history and economic impact of tax-loss farming.

-- studies should be undertaken at the state and local levels and in the land grant colleges to measure the impact of tax-loss farming on various localities of the country.

APPENDIX A

PROFILES OF FIVE LIMITED PARTNERSHIPS INVESTING IN AGRICULTURE

Examining five tax shelters in California, Mississippi, Texas, Arizona and Mexico, totalling $38 million worth of partnership interests in agriculture, it is possible to see the type of financial power which is today seriously disrupting America's agricultural economy.

In California the state's tenth largest bank (U.S. National) bankrolls the state's largest farmer (Hollis Roberts) to form a syndicate. Another nearby 295,000 acre ranch (Tejon Ranch) controlled by the west's largest publishing company (Times Mirror Corporation), borrows $27 million from one of the nation's largest insurance company's (John Hancock) to form an agricultural syndicate which plans to market many of its crops through an international conglomerate (Tenneco, Inc.).

In Mississippi a major food company (Cal-Maine Foods, Inc.) absorbs a syndicate of its own creation into its fully integrated commercial egg business which will have to compete with many of the company's own contract farmers. In Arizona a newly-created U.S. real estate investment company (Antaeus Development Company) creates a joint venture syndicate using cheap Mexican land and labor to produce crops for distribution in the U.S.

And a large, integrated nationwide financial service organization (Equity Funding Securities Corporation) sets up a beef cattle syndicate installing one its executive vice presidents as chairman of the syndicate's board only to see him resign from the company 16 months later along with five other corporation executives in the wake of a major fraud scandal involving the corporation and its subsidiaries.

Ankony Cattle Systems--1971

A limited Partnership Formed to Engage in the Breeding and Sale of Seedstock Beef Cattle and the Feeding of Commercial Cattle for Slaughter.

$5,000,000 of limited partnership interests (2000 units $2500 per unit--Minimum purchase: two units)

General Partner: Equity Funding Cattle Management Company manages the partnership and Ankony Angus Corporation maintains the herd (both wholly-owned subsidiaries of Equity Funding Corporation of America).

Underwriters: Equity Funding Securities Corporation.

* Equity Funding Securities Corporation--an integrated financial service organization primarily engaged, through subsidiaries, in the sale of life insurance and mutual fund shares, either separately or in coordinated acquisition plans, and in life insurance operations. In early 1973 the Corporation filed bankruptcy proceedings after federal and states investigators discovered over two-thirds of the insurance written by the firm's key subsidiary were bogus policies that the company sold to reinsurers for cash. Millions of dollars of company assets were also found missing.

The Feeders purchased by the Partnership are fed at independent feed lots, or at feed lots which Ankony has acquired or manages. The purchase of Feeders and feed by the Partnership are financed through banks, feed lot operators or "other lenders."

"The Partnership may engage to a limited extent in the trading of cattle and grain futures. Hedging is the purchase or sale of "paper lots" of a given commodity. Management of the General Partner has had limited experience in hedging operations and there can be no assurance that hedging, if engaged in, will be profitable, or will minimize the Partnership's Risks."
--Prospectus, December 6, 1971

Main office is in Los Angeles, California at 1900 Avenue of the Stars.

1971 Antaeus Annual Preference Program (Terminated June 30, 1972)

A limited partnership formed to participate in joint ventures engaged in the growing of agricultural produce in Mexico for distribution primarily in the United States.

$2,500,000 of limited partnerships (Maximum of 1000 and minimum of 480 units of limited partnership interest at $2500 per unit).

General partner: Antaeus Development Company, (subsidiary of Antaeus Resources Corporation).

Underwriter: Antaeus Distributors, Inc. (subsidiary of Antaeus Resources Corporation)

* Antaeus Resources Corporation--sponsors natural resources and real estate investment programs with tax shelter characteristics, e.g., San Diego Company (cut flowers and potted plants), Boulder Properties (real estate properties development in Arizona, Colorado and Florida).

Joint Ventures in Mexico included the Almada (2960 acres of cucumbers, pole tomatoes, bell peppers, squash, safflower, soy beans, sorghum, corn), Zaragoza (1,310 acres of vegetagles and 1245 acres of citrus), Palomares-Rendon (1110 acres of cucumbers, pole tomatoes, bell peppers, egg plant), Riveros (360 acres of pole tomatoes, cucumbers, bell peppers, cherry tomatoes) Rivera (2260 acres of bell peppers, red peppers, canntaloupe melons, squash, string beans, pole tomatoes, cucumbers, pickles, eggplant).

"The supply of labor traditionally has exceeded demand in the areas of the Joint Ventures."

--Prospectus, November 11, 1971

All produce of joint ventures except for the Rivera Joint Venture was to be distributed exclusively by Sierra Pacific Distributors, the Nogales, Arizona division of DVR Corporation, a wholly owned subsidiary of Antaeus.

Desert Citrus Packers (a division of DVR Corporation) harvests, grades, stores and packs and Sunkist Growers, Inc., a citrus marketing cooperative, sells citrus grown by six limited partnerships, of which three officers and directors of Antaeus Development are general partners and of five in which Antaeus is a limited partner, in competition with the citrus grown by one of the Joint Ventures.

Neither Program nor the General Partner or the distributors had any history of operations prior to this offering.

* National Farming Program--1972

A limited partnership formed to engage in an agricultural business limited to activities in connection with the production and sale of Shell Eggs (from Partnership flocks).

$6,000,000 of limited partnership interests (6,000 units at $1,000 per unit--minimum purchase: five units)

General Partner: Jefferson County Egg Farms, Inc. (Jackson Mississippi) (a subsidiary of Cal-Maine Foods, Inc.)

Distributors: Thirty-three Twenty Securities Corporation (a subsidiary of Cal-Maine Foods, Inc.) and GFCS, Inc. (both organized specifically for this offering).

* Cal-Maine Foods, Inc.--A fully integrated commercial egg business with owned and leased facilities located in the South, West, Midwest and Northeast with a net worth as of April 22, 1972, of $9,558,496.

Chicken flocks to be maintained in facilities owned or operated by farmers under contract with the Partnership. All replacement birds, feed, medication and supplies to be purchased from Cal-Maine Foods, Inc. A portion of the Partnership flocks will be maintained under contract at farms owned or operated by affiliates of Cal-Maine. Partnership to see all its marketable egg production to Cal-Maine. Upon dissolution of Partnership all its assets to be sold to Cal-Maine pursuant to a right of first refusal.

Upon sale of the initial laying flock to the Partnership and the purchase of feed, Cal-Maine to realize an approximate profit of between $75,000 to $877,000 (depending on number of units sold).

General Partner to receive an initial management fee of 8% of the gross proceeds of the offering (maximum of $480,000), a continuing fee computed and paid weekly for the management of the Partnership's flocks of 1.5 cents per dozen eggs produced and sold, a distribution of up to 25% of the gain realized by the Partnership upon sale of its properties.

Eugene C. Pace (Securities salesman licensed by the State of California) is controlling shareholder and principal executive officer of GFCS, Inc., and the initial Limited Partner of the Partnership. Fred Adams, Jr., Chief Executive Officer and Director, and George A. Rabinoff, Vice President and Director, of the General Partnership are both founders and principal stockholders of Cal-Maine Foods, Inc.

"Because of the relationship of parties, conflicts of interest exist and may arise in the future between the Partnership and the General Partner, its affiliates and other private limited partnerships managed by the General Partner."
--Prospectus, July 28, 1972.

* Roberts Syndication--1971

A limited partnership formed to engage in the Business of Owning and Farming 5,829 Acres of Vineyards and Fruit and Nut Groves and Fresno, Kern and Tulare Counties, California.

$8,400,000 of limited partnership interests (8,400 units at $1000 per unit (payable $365 at time of subscription) -- Minimum purchase: five units.

General Partner: Roberts Management Corporation (sole general partner of Roberts Syndication--1971), a wholly-owned subsidiary of Roberts' Farms Inc.

Underwriter: First California Company, Inc.

Farm Manager: Roberts' Farms Inc.-- wholly-owned by Hollis and Manon Roberts of McFarland, California. Engaged in citrus farming since 1958 and in fruit, nut and grape farming since 1957. Controls 130,000 acres worth $125 million (approximately 80,000 acres bought in 1971 from Tenneco, Inc. for $80 million with which the farms now has a marketing agreement). Presently, farms citrus and nut groves for 49 different owners, including Getty Oil Company, Texaco, Inc., Buttes Gas and Oil Company and PIC Realty Corporation (a subsidiary of Prudential Life Insurance Co.). Frequently financed by C. Arnholt Smith and U.S. National Bank in San Diego, California.

All monies received by the Farm Manager from the sale of crops (except expenses) are paid into a special account of the Company at the U.S. National Bank.

Any contract or future labor negotiation and resultant contract which could result in higher labor costs would cause an increase in the management fee paid by the Company to the Farm Manager.

Purchasers must be a resident of California, either have a present net worth (exclusive of home, furnishings and personal automobiles) in excess of $50,000 and an annual gross income in excess of $35,000, or that he has a present net worth (exclusive of home, furnishings and personal automobiles) in excess of $100,000, regardless of annual gross income.

Farm manager receives $351.34 per acre, harvests and markets all crops for a fee equal to cost plus 10%, "extraordinary" farming services cost plus 10%, incentive payments which are 25% of the amount by which net cash receipts (after principal and interest payments) exceed an accumulative amount equal to an annual rate of 10% of the limited partners, 25% of any profit made by Company (exceeding sales price of $2350 per acre) less applicable principal payments, and 3% of the purchase price of capital items purchased by the Company.

"In the event that trees or vines die or become commercially unproductive, (Farm Manager) will have no duty under this agreement to either remove or replace said trees or vines, (Farm Manager) will have no duty to make capital improvements or pay real property or personal property taxes on the property or improvements thereon, or pay any assessments by virture of the ownership of the real property."

--1971 Farm Management Agreement,
December 30, 1971

*

Tejon Agricultural Partners

A Limited Partnership Formed to Engage In the Business of Farming Approximately 21,000 Acres of Land in Kern County, California, which will be planted with Grape Vineyards, Nut, Citrus and Fig Groves, and Vegetable and Field Crops.

$16,000,000 of Limited Partnership Interests (16,000 units at $1000 per unit (subject to assessment up to $200 per unit) --Minimum purchase: five units)

General Partner: Tejon Agricultural Corporation (wholly owned by Tejon Ranch Co.) organized in connection with this offering.

Underwriters: The First Boston Corporation and Dean Witter and Company, Inc.

The General Partner will contribute the property to the Company which obtained a loan (approximately $27,000,000) secured by the property and the improvements to be developed therein, from John Hancock Mutual Life Insurance Company. The property will be returned to the General Partner at the end of the partnership term which will occur on or before December 31, 1997.

Farm Manager:

Tejon Ranch Company--publicly held corporation (Times Mirror Corporation owns 12.8% and Chandis Securities Company--wholly owned by the Times Mirror Chandler family -- owns 5.8%) which owns a 295,000 acre ranch -- largest single operating ranch in California. Formed in 1936 as a successor to a partnership organized in 1912 the Ranch Company raises beef cattle (14,000 head), cotton, potatoes, oranges, and field grains.

Purchasers must have a net worth of $50,000 or more and an estimated taxable income in the 50% or higher tax bracket or a net worth of not less than $200,000.

Will market wine grapes (43% of plantings) through "one or more California wineries," vegetables and field crops through "brokers, shippers and grower-shippers who purchase for customers or for wholesale distribution on a seasonal basis," almonds through California Almond Orchards (a subsidiary of Tenneco, Inc.), oranges and lemons will be packed at Terra Bella Citrus Association Inc. (subsidiary of Pacific Lighting Corporation) and marketed by Sunkist Growers, figs through Sunland Marketing, Inc ("Sunsweet" and "SunMaid."), walnuts through Diamond Walnut Growers Association pistachios through either California Almond Orchards or W.D. Fowler and Sons Corporation (a subsidiary of Pacific Lighting Corporation).

Water will be provided to 73% of the Partnership's land by Federal and State of California Water Projects including the California Water Project and the U.S. Bureau of Reclamation's Central Valley Project.

Farm manager is not presently a party to a collective bargaining agreement with any labor union.

"Farm Manager, both as a direct farm operator and as a lessor to other farm operators, may from time to time be in competition with the Company as to one or more crops. However, the Farm Manager has agreed that during the initial four years of the Company's operation it will not plant or permit new lessees to plant new trees and wine crops in competition with the Company."
--Prospectus, May 22, 1972

APPENDIX B

A $100,000,000 WHO'S WHO OF SYNDICATED FARMING

1. Amfac Cattle Company -- A subsidiary of Amfac, and agent was marketing agent for Amfac Cattle Programs. Was formed out of an acquisition of Wilhelm Foods. Pens in Fort Collins and Rocky Ford, Colorado. Pen capacity is 65,000 head.

2. Amfac Cattle Programs -- A $20,000,000 limited partnership engaged in the cattle feeding business for a limited period of time.

3. Amfac, Inc. -- A diversified merchandising (Western Drug Supply), asset management (86,000 acres owned and 94,000 acres leased principally in Hawaii, credit, mortgage banking, and financial corporations), hospitality (hotels, restaurants - "Fred Harvey," and resorts), and food processing (Lamb-Weston, Inc., Wilhelm Foods, Pacific Pearl Seafoods, Inc., five sugar companies -- largest producer of raw cane sugar in Hawaii, fresh and frozen beef operations in Australia) corporation.

4. Ankony Angus Corporation -- A breeder, buyer and seller of registered black Angus cattle which maintains the herd for Equity Funding Cattle Management Company.

5. Ankony Cattle Systems - 1971 -- A $5,000,000 limited partnership formed to engage in the breeding and sale of seedstock beef cattle and the feeding of commercial cattle for slaughter.

6. Antaeus Annual Preference Program/1971 -- A $2,500,000 limited partnership formed to participate in joint ventures engaged in the growing of agricultural produce in Mexico for distribution primarily in the United States. Terminated in June, 1972.

7. Antaeus Development Company, Inc. -- General partner in the 1971 Antaeus Annual Preference Program (subsidiary of Antaeus Resources Corporation).

8. Antaeus Resources Corporation -- Sponsors natural resources and real estate investment programs with tax shelter characteristics through its subsidiaries.

9. **Apache Corporation** -- A diversified company engaged in manufacturing operations, providing investment services with controlling interests in a gas and oil exploration company and general partner of Apache Grove Land Program 1972. The Corporation has 28 operating oil and gas programs, a realty fund, two other grove land programs, and 27 operating subsidiaries including Apache Programs, Inc., a NASD member broker-dealer and S & J Ranch, Inc., a manager of agricultural properties.

10. **Apache Grove Land Program 1972** -- A $5,950,000 limited partnership to acquire, own and develop 2178 acres of land in Fresno, Madera and Tulare Counties, California which include organges, figs, pistachio and olive trees. The objective of the program is to hold part of the land for possible appreciation in value while in the interm attempting to produce income from farming operations.

11. **Bell Cattle Funds** -- A $10,000,000 limited partnership formed to engage in cattle feeding in Arizona.

12. **Buttes Gas & Oil Company** -- A publicly held corporation engaged principally in the exploration for, and development and production of, oil gas and other minerals and the development and farming of some 16,600 acres of agricultural properties. Organized the 1971 Treecrop Company. A subsidiary of the Company is White River Farms, producer of 20%-30% of the wine grapes for Guild Winery ("Roma," "Wine Master," "Virginia Dare," "Cresta Blanca") and currently refusing to renogotiate a contract with the United Farm Workers Union (AFL-CIO).

13. **Calafia Groves Company** -- An $8,000,000 limited partnership formed to engage in the business of owning and farming of approximately 2814 acres of almond and citrus groves in Kern County, California. Offering was withdrawn in March, 1972.

14. **Calafia Land Corporation** -- The general partner of Calfia Groves Company. The Corporation is owned 30.6% by Sunland Development, Inc., 3.8% by its officers and directors, 4.5% by Midland Securities Company, Inc. and 61.1% by approximately 23 other persons. Sunland Development, Inc. is owned 8.6% by Midland Securities Company, Inc. and its

affiliates. Midland Securities Company, Inc. is wholly owned by M.J. Coen, Chairman of the Board of Calafia Land Corporation. Midland Securities Company, Inc. owns 51% of First California Company, Inc., (whole president is M.J. Coen).

15. Cal-Maine Foods, Inc. -- A holding company whose subsidiaries (including several limited partner syndicates) conduct a fully integrated commercial egg business throughout the U.S.

16. Circle Three Land and Cattle Company -- A $6,000,000 limited partnership for the purpose of engaging in the cattle ranching business in California, Texas, Mississippi, Oklahoma, Nebraska, Kansas and Iowa.

17. Equity Funding Cattle Management Company -- The general partner of Ankony Cattle Systems -- 1971 and a subsidiary of Equity Funding Corporation of America. Samuel B. Lowell, Chairman of the Board of Directors, and Executive President and Director of EFCA, and Stanley Goldblum, a director, and President and Chairman of the Board of EFCA, both recently resigned from EFCA in the wake of a major fraud scandal.

18. Equity Funding Corporation of America -- Is engaged in the marketing, creation and management of financial services and products. In recent months the company has filed bankruptcy proceedings, two thirds of its insurance written by the firm's key subsidiary were bogus policies that the company sold to reinsureres for cash, the company's stock is no longer being traded, and millions of dollars of the company's assets are missing.

19. First California Company, Inc. -- A San Francisco, California underwriting firm which handles a variety of agricultural syndicates in California (including Roberts Syndication--1971 and Calafia Groves Company) and has strong business ties with C. Arnholt Smith, Westgate-California and U.S. National Bank.

20. Great Plain Western Corporation -- The general partner of Circle Three Land and Cattle Company. Corporation does not own or operate any feed yard but places cattle on feed in commercial feedlots entrusting the actual care and

feeding to the selected feedlots. The Corporation also manages four other limited partnerships.

21. Jefferson County Egg Farms, Inc. -- A corporation (subsidiary of Cal-Maine Foods, Inc.) engaged in the production of shell eggs in Jackson, Mississippi and the general partner of the National Farming Program/1972 limited partnership syndicate.

22. John Hancock Mutual Life Insurance Company -- Fifth largest U.S. insurance company with assets of $10.6 billion who provided a $27 million loan to help establish the Tejon Agricultural Partners.

23. Lava Financial Company -- A California corporation which is the general partner of Bell Cattle Funds. Certain principal stockholders are also principal stockholders of McElhaney Cattle Company.

24. Lincoln Industries Corporation -- Sole limited partner of McFarland Management Company. Wholly-owned subsidiary of Hornblower & Weeks Hemphill, Noyes.

25. Maple Leaf Pistachio Ranch -- A $2,240,000 limited partnership formed in California to engage in the business of raising pistachios and cattle.

26. McElhaney Cattle Company -- Maintains, purchases, and feeds cattle for Bell Cattle Funds.

27. McFarland Land Company -- Manages and participates in the ownerships of 7926 acres of California wine grape vineyards which are owned by private limited partnerships or other ventures formed privately through offerings to limited groups of investors. Owned by M.B. McFarland, Myron B. McFarland, Jr. and Gerald B. McFarland (general partners).

8. McFarland Management Company -- The general partner of Vineyards Ltd. Partnership of Investco Associates Inc. and McFarland Land Company.

29. Monterey Vineyards -- A $8,300,000 limited partnership formed to acquire up to 4355 acres of land in Monterey County, California for the purpose of planting and harvesting wine grapes. The partnership also has secured loans of $5,774,000 from John Hancock Mutual Life Insurance Co., $3,640,000 from Mutual Benefit Life Insurance Company and an unsecured loan of $1,298,000 from Wells Fargo Bank.

30. National Farming Program/1972--A $6,000,000 limited partnership formed by subsidiary of Cal-Maine Foods, Inc. to engage in an agricultural business limited to activities in connection with the production and sale of shell eggs.

31. Nazko Valley Ranch Company Ltd.--A Canadian corporation which is managing cattle for Maple Leaf Pistachio Ranch.

32. Oakville Limited Partnership--A $1,500,000 limited partnership has exercised an option assigned to the partnership by Oakville Vineyards to purchase certain properties, including certain farm equipment and all of the stock in a corporation owning vineyards, wineries, farming equipment and other miscellaneous property located in Napa Valley, California.

33. Oakville Vineyards--the general partner of the Oakville Limited Partnership, whose stock is owned by W.E. van Loben Sels. Vineyards comprised of 260 acres in addition to various farm and wine-making equipment. Eight wines are bottled with the Oakville label.

34. Rancho De Las Frutas--A $389,500 limited partnership formed in California to purchase and engage in the business of farming 320 acres of tree fruit and vineyards.

35. Roberts Farms Inc.-- Wholly owned by Hollis and Manon Roberts and located throughout the southern San Joaquin Valley, California. Controls 130,000 acres making Roberts the valley's largest individual farmer, and one of the nation's top suppliers of fruits and nuts. In 1971 Roberts bought nearly 80,000 acres of prime agricultural land from Tenneco, Inc. for almost $80,000,000. Roberts is a close business associate of C. Arnholt Smith and the U.S. National Bank; manages farms for some 49 different customers, including Roberts Syndication-1971, 1971 Treecrop Company, Jasmine Groves, Rancho Santa Maria, SWESGA Land Corporation, Getty Oil Co., Texaco and PIC Realty (a subsidiary of Prudential Life Insurance Co.).

best copy available

36. Roberts Management Corporation--General partner for Roberts Syndication-1971. Wholly owned by Roberts Farms Inc.

37. Roberts Syndication-1971--A $8,400,000 limited partnership formed to engage in the business of owning and farming approximately 5,829 acres of vineyards and fruit and nut groves located in Fresno, Kern and Tulare Counties, Calif.

38. S & J Ranch, Inc.--A subsidiary of the Apache Corporation and farm manager for Apache Grove Land Program 1972. Properties in Tulare, Fresno, and Kings Counties, Calif. Manages two other Apache land programs and farms an additional 707 acres in Madera County for various landowners not affiliated with Apache.

39. Sierra Pacific Distributors--The Nogales, Arizona division of DVR Corp (wholly owned subsidiary of Antaeus) who acted as distributor of produce for the 1971 Antaeus Annual Preference Program.

40. Sun Fruit, Ltd.--Farm manager for Wine Lands, Inc. Formerly known as Federal Fruit Distributors and whose farming operations spread throughout California. Stockholders equity is $1,813,244.

41. Tejon Agricultural Corporation--A subsidiary of Tejon Ranch Company and the general partner of Tejon Agricultural Partners. One director of the Corporation is James B. Kendrick, Jr., Vice President in charge of Agricultural Sciences, University of California.

42. Tejon Agricultural Partners--A $16,000,000 limited partnership formed by the Tejon Ranch Co. (295,000) in California with a $27 million loan from John Hancock Insurance Co. to engage in the business of farming approximately 21,000 acres of land which are to be planted with grape vineyards, nut, citrus and fig groves and vegetable and field crops.

43. Tejon Ranch Company--A 295,000 acre ranch in Kern County, California which is publicly held but controlled by the Times-Mirror Corporation and which is leasing the land used by the Tejon Agricultural Partners.

44. Thirty-Three Twenty Securities--A division of Cal-Maine Foods, Inc. and distributor of the units offered by National Farming Program/1972.

45. Times Mirror Corporation--The west's largest publishing company (*The Los Angeles Times*) owned by the Norman Chandler family and owner of the controlling interest in the Tejon Ranch Co.

46. Treecrop 1971 Management Corporation--The general partner of 1971 Treecrop Company and a wholly-owned subsidiary of Buttes Gas and Oil Company.

47. U.S. National Bank (San Diego, Calif)--Tenth largest bank in California with assets of over $750 million. President and Chairman of the Board is C. Arnholt Smith, a close personal friend of President Nixon and an important GOP fund raiser. Both the bank and Smith are deeply involved in many of the complicated financing programs of California agricultural and real estate syndicates.

48. Vineyards Ltd.--The general partner of Monterey Vineyards.

49. Vista Ranching, Inc.--A Merced County, California ranch which is to develop and manage pistachio groves for Maple Leaf Pistachio Ranch.

50. Wine Lands, Inc.--The general partner of Rancho De Las Frutas. Newly formed corporation.

51. 1971 Treecrop Company--A $2,100,000 limited partnership formed to farm approximately 2408 acres of land(purchased on option from Buttes Gas & Oil Co.), substantially all planted with nut, citrus and other fruit trees and grape vineyards, located in Tulare and Kern Counties, California. Company was organized through the efforts of Buttes. Farm Manager is Roberts Farms Inc. Certain crops will be marketed through Tenneco, Inc., Sunkist Growers, Inc. and the California Canners and Growers Assoc.

• THE FRESNO BEE Thursday, Oct. 9, 1980 B7

USDA: Buying farms with pensions 'not in best interests'

By RICHARD D. HALL
Bee Washington bureau

WASHINGTON — An investment company's plan to use pension funds to buy farms that would be supervised by regional management firms — including two Fresno companies — was critized by the U.S. Department of Agriculture and others Wednesday.

The chief concerns were that use of pension funds would lead to a greater degree of absentee ownership of the nation's farms and that other would-be farm owners could be squeezed out of the market because of the great resources available through some pension funds.

A.V. Krebs of Rural America, a national advocate group for rural residents, testified during a Senate committee session that the Fresno companies, Blackburn Farm Management and Gentle Farms, and a Florida company, Southern Farms and Investments, have been chosen but not yet hired by American Agricultural Investment Management Co. Inc.

The managers would decide which crops to grow and what fertilizer to use, and would seek operators for the farms, he said.

Susan Sechler, deputy director of economics, policy analysis and budget for the Agriculture Department, said the plan "would not be in the best interests of the farm sector or the general public."

Outlining what she called "our deepest concern," Sechler said, "What we are considering today is a test case of an investment system that has the potential for radically, irrevocably transforming American agriculture's structure and performance by changing the recipients of the largest single component of income in the farm sector and changing the ownership of its major asset: the land."

Farmers and potential farmers would have an even more difficult time affording farmland because land prices "probably would be driven even higher" if pension funds were used, Sechler said.

She suggested that amending the tax laws could discourage some farmland investments by pension funds and give family farmers a better chance to compete.

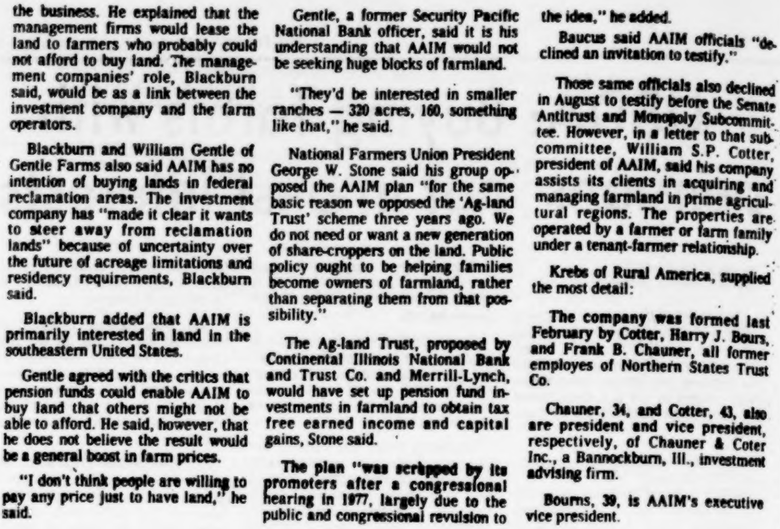
Sen. Max Baucus, D-Mont., who conducted the hearing for the Select Committee on Small Business, indicated that he would favor legislation to block the AAIM and any similar plans. Baucus said he believed "farmers should own the land they work."

The committee chairman, Sen. Gaylord Nelson, D-Wis., was absent, but he issued a statement that because of the AAIM plan, consideration should be given to banning pension fund investments in farmland.

Disputing the criticisms, however, were the heads of the Fresno farm management companies.

John Blackburn of Blackburn Farm Management told The Fresno Bee, "We view this as an opportunity for the middle-income wage earner, through his pension fund, to gain a stake in American agriculture."

Blackburn also said the plan actually would help young farmers enter



the business. He explained that the management firms would lease the land to farmers who probably could not afford to buy land. The management companies' role, Blackburn said, would be as a link between the investment company and the farm operators.

Blackburn and William Gentle of Gentle Farms also said AAIM has no intention of buying lands in federal reclamation areas. The investment company has "made it clear it wants to steer away from reclamation lands" because of uncertainty over the future of acreage limitations and residency requirements, Blackburn said.

Blackburn added that AAIM is primarily interested in land in the southeastern United States.

Gentle agreed with the critics that pension funds could enable AAIM to buy land that others might not be able to afford. He said, however, that he does not believe the result would be a general boost in farm prices.

"I don't think people are willing to pay any price just to have land," he said.

Gentle, a former Security Pacific National Bank officer, said it is his understanding that AAIM would not be seeking huge blocks of farmland.

"They'd be interested in smaller ranches — 320 acres, 160, something like that," he said.

National Farmers Union President George W. Stone said his group opposed the AAIM plan "for the same basic reason we opposed the 'Ag-land Trust' scheme three years ago. We do not need or want a new generation of share-croppers on the land. Public policy ought to be helping families become owners of farmland, rather than separating them from that possibility."

The Ag-land Trust, proposed by Continental Illinois National Bank and Trust Co. and Merrill-Lynch, would have set up pension fund investments in farmland to obtain tax free earned income and capital gains, Stone said.

The plan "was scrapped by its promoters after a congressional hearing in 1977, largely due to the public and congressional revulsion to the idea," he added.

Baucus said AAIM officials "declined an invitation to testify."

Those same officials also declined in August to testify before the Senate Antitrust and Monopoly Subcommittee. However, in a letter to that subcommittee, William S.P. Cotter, president of AAIM, said his company assists its clients in acquiring and managing farmland in prime agricultural regions. The properties are operated by a farmer or farm family under a tenant-farmer relationship.

Krebs of Rural America, supplied the most detail:

The company was formed last February by Cotter, Harry J. Bours, and Frank B. Chauner, all former employes of Northern States Trust Co.

Chauner, 34, and Cotter, 43, also are president and vice president, respectively, of Chauner & Coter Inc., a Bannockburn, Ill., investment advising firm.

Bourns, 39, is AAIM's executive vice president.

Senator BAUCUS. Mr. Stone, I want to congratulate you on being president of the Farmers Union. If you have a statement, I would very much like to hear it this morning.

STATEMENT OF GEORGE STONE, PRESIDENT, NATIONAL FARMERS UNION

Mr. STONE. Thank you, Mr. Chairman. I am George Stone, president, National Farmers Union, since last March. This is my first appearance before this committee.

I appreciate the interest of the Small Business Committee, particularly the chairman, Mr. Nelson, and of course your interest as far as scheduling this hearing as well as for the hearing you held prior to this. Of course, we appreciate the opportunity to be able to make a statement.

In March 1978, when Secretary Bergland launched his national dialog on the structure of American agriculture he appeared before our convention in Kansas City. The statement he made was:

> We must act now to insure the kind of American agriculture we want in the years ahead. I do not want to see an America where a handful of giant operators own, manage and control the entire food production system—yet that is where we are headed if we don't act now.

More recently, USDA has issued a more specific warning in the form of the projections to the year 2000 on "U.S. Farm Numbers, Sizes, and Structural Dimensions."

It is indicated that if we continue just as we are, by the year 2000 this will have happened:

The number of farming units will drop to 1.8 million.

Agricultural production and farmland ownership will be dominated by fewer and fewer farming units.

Half of the farmland will be farmed by the largest 50,000 farming units and they will account for two-thirds of the output.

Young, potential farmers will have increasing difficulty getting started in farming. The number of farmers under age 35 will decline by 40 percent.

Corporation and partnerships will account for half the farm output.

Two-thirds of the wealth in the farm sector will be in the hands of those associated with farms grossing more than $100,000 a year.

Capital requirements will rise to $2 million per farm for units with sales of $100,000 or more—nearly double what was required in 1978.

We agree those projections are not out of line with the trend that is now taking place.

We are convinced in Farmers Union that family-owned, family-operated farms are indispensable to a strong national economy.

As a prelude to the legislative deliberations which will have to be undertaken by the new Congress, it will be useful for this hearing to examine the trends which are undermining the family farm system.

Members of the committee we expect are aware of the attention that has focused on foreign investment.

The National Farmers Union actively supported the development and adoption of Public Law 95-460, as a right-to-know measure.

Congress has now received the first and second reports evaluating the disclosure reports required by the law and even though a considerable number of reports—2,300—are still in various stages of processing, the magnitude of the problem has begun to emerge.

Some in USDA and in the media have seized upon indications that foreign ownership involves less than a half percent of U.S. farmland to term the problem inconsequential.

In doing so, they miss the point in several respects:

As of February 1, 1970, foreign interests held 5.6 million acres of land.

Foreign ownerships of farmland were disclosed in 49 States.

More U.S. farmland has been acquired by alien investors in the past 5 years than in the preceding 50 years.

Corporations own 81 percent of the total foreign-held acreage, individuals only 8 percent.

About 20 percent of the investments have been made through countries which have tax treaties enabling their investors to shelter their transactions for concealment and tax avoidance.

Real estate industry estimates have been that foreign investment in American farmland has totaled about $1 billion a year in recent years.

Substantial as that figure may be, it is small compared to the potential of proposals which would tap pension fund assets for investment in farmland.

There are some pension fund investments in farm real estate, but they are modest to this point. Of the $600 billion in current pension fund assets, about 60 percent is invested in the stock market, about 11 percent in Government securities, about 12 percent in corporate securities, and the remainder in a variety of investments, including mortgages, trusts, pooled funds, and real estate.

However, real estate makes up only about 2 percent of the typical portfolio and agricultural real estate only a minor fraction of that amount.

In part this may be because of the chronically low economic returns and the high risk involved in farming.

Returns to equity in farming ranged between 2.6 percent and 10 percent in the decade of the 1970's and averaged 4.8 percent. This compares with an average return on stockholders equities in manufacturing industries of 21 percent for the same period.

Nevertheless, there are some pension fund investments in farmland and considerable interest based apparently on the speculative possibilities.

You will recall the Ag-Land Trust proposal that was attempted, as has been brought out previously today. This Ag-Land Trust was scrapped by its promoters after a congressional hearing in early 1977, largely due to the public and congressional revulsion to the idea.

The new proposal, that of American Agricultural Investment Management Co., differs in a number of respects from Ag-Land Trust, yet it would also rely on speculative gains in land values and continuing inflation.

One firm that has gone into farmland investments more than most others is the Travellers Group Pension Division. I went over this yesterday to find out the various types of investments they have in real estate. They are a number of farms ranging anywhere from $500,000 to around $1.5 million or $2 million that they had purchased. They are scattered in various places over the country. As I mentioned, they are the biggest one. They are the only ones that have really shown any move to get into this.

Senator BAUCUS. What is the name of that group?

Mr. STONE. Travellers Group Pension Division.

They had more than $6 billion under their management in 1979. Of this total, $18.7—or about $1.1 billion—was in agricultural real estate and included equities in properties, first and second mortgages, and sales contracts.

Farm holdings included 53 farm and timber properties with rates of return ranging between 10.50 percent and 16.60 percent, with an average return of 12.82 percent.

Of course, the profitability of such investments is based upon expectations of inflation, rather than upon the earning power of the land in farm production.

In the Travellers Group report they show the cost of that particular piece of land. Then they show for asset purposes the appraised values at this date. In each case where the property had been bought some months prior there was substantial increase. Of course, we are recognizing the appreciation of land. It does show them quite an increase in the balance sheet because of the appraisal value if they sold based on what they paid for it.

The Travellers Group 1979 Report acknowledges as much when it observes that:

> Operationally, agriculture remains a high-risk business. Yet it utilizes one of the world's most durable and sought-after resources (land) and the demand for its unique products is universally expected to increase over the long term.

We talked about the pension fund earlier. As to the amount of money, it has been brought out it is a tremendous amount overall and, of course, is continually growing.

Theoretically, there will be more than enough assets in pension funds in the future to buy all the farmland in the Nation, if that were the choice of the fund managers.

However, no one expects that to happen. But, even a small shift of pension fund money into farmland would be felt. If as little as 3 percent of the $600 billion in pension fund assets were shifted into farm investments, that would amount to $18 billion. That would exceed the total value of farm real estate transfers in the past year, which according to USDA-ESCS was $16.4 billion.

If 10 percent of the pension fund assets were to go into agriculture, that would mean an influx of $60 billion of new capital bidding on farmland under present conditions and $150 billion by the year 1990.

A doubling of the amount of capital seeking to acquire farmland would certainly cause inflationary increases in land prices. The impact would be much greater than the price spiral in the 1970's.

The effects would be even more severe if the pension fund investments were targeted in limited areas—for example, singling out only prime farm acreage, concentrating on row-crop acreage, or upon specific commodities.

The ability of beginning farmers—or existing farmers seeking to expand their operations—to bid for land would certainly suffer by the presence of institutional investors who would not have to pay for the land from its agricultural earnings. I think that is a key point. If you have outside money of any source to buy farmland, it surely puts the farmer in a bad position to have to buy land based on what he can make and the return that he expects to receive.

Certainly this is true of young farmers or those that would be desiring to get into agriculture to replace many of the older farmers who are going out or retiring. Young farm couples face many obstacles now in acquiring ownership, and this would add to it.

Advocates of institutional investment in farm real estate contend they would be doing a huge service to farmers. This is a phony argument. The operating farmer pays a land cost whether he owns or rents. He pays land costs as a cash renter or as a share-cropper. The difference is that he acquires no equity in the land and has less control of his own destiny if he does not own the land he farms.

As for the American Agricultural Investment Management Co., the National Farmers Union opposes it for the same basic reasons as we opposed the Ag-Land Trust scheme 3 years ago. We do not need or want a new generation of sharecroppers on the land.

There, of course, has been a credit crunch in agriculture from time to time, partly because of farm income ranging between 60 to 70 percent of parity and partly because of damaging tight money, high interest rate policies on the part of the Federal Reserve Board. These conditions have forced farmers to try to substitute credit for income.

If there is any genuine interest on the part of investors in serving the credit needs of agriculture, there are ways to do it without depriving farmers of the ownership of their land.

The simplest way would be for these investors to invest in debentures of the Farm Credit Banking System. There are other ways, but this is the key one.

The supply of farmland in the Nation is gradually shrinking, as an estimated 2 million acres of cropland is lost each year to nonagricultural uses.

The influx of pension fund assets will inflate land prices severely, and to the extent that this happens family farmers purchasing land will have less net money to put into land or farming inputs.

We have other concerns about absentee ownership and control. It is generally recognized that families owning, living on, and farming the land are the best stewards of these natural resources. I do not have to elaborate on how a person would take care of his own product much more than someone else would or they would be expected to do for someone else. People will take care of their own property when they are going to live on it, survive on it, and make a living on it much more than they will for someone else.

Since landownership laws and regulations are usually the province of State governments, the State legislatures can extend the laws which they already have to restrict corporate or alien landownership and farming to apply to the pension fund or other corporate investment funds.

May I digress here? I am from Oklahoma. I spent my life there until last March. In Oklahoma we have an alien ban on landownership. It is in the constitution. It was put there in 1907. It prohibits aliens from owning land in the State of Oklahoma. They have to become a bona fide citizen. This has stood on the books all of these years. It is now under protest, but at this point they are not involved in farming and they are not permitted to buy farm or any other real estate. There has been some purchased, but it is under court protest at this point to see whether or not the alien corporations or individuals can own property.

On the other hand, we also have an anticorporation law. When the Ag-Land Trust was brought up a few years ago, we immediately got through the legislature an amendment which would prohibit them from doing what they propose to do. I think the same would apply to this pension fund trust because it is pretty wide and pretty restrictive.

States do have a right, but it is just easier, rather than States having to deal with them, for the Federal Government under protective law for all States to take the position that we hope this Congress and the future Congress will take.

Another opportunity is for the Employee Retirement Income Security Act. The statement in the law says:

> A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and (a) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the plan, (b) with the care, skill, prudence and diligence * * * that a prudent man * * * would use * * * by diversifying investments of the plan so as to minimize the risk of large losses.

If you go back to the returns they expect to make from farm operators and take the history and the records of the past several years, you will find that a prudent man would not go out today and invest in farmland if he expected a high return on his investment.

I think the law certainly could apply in this respect if they were guided by it.

This could also be mandatory by a limit of 5 or 10 percent to be placed on a portion of the fund's assets which could be placed in agricultural real estate investment.

We would prefer, however, to see future investment of pension funds in agricultural land barred entirely, with a provision for divestiture within 10 years of land now owned by pension funds.

In conclusion, we wish to observe that the various challenges to the family farm system by alien or corporate investors, by syndicates and tax-shelter farming, by corporate integration and contract farming, and by the growing dominance of markets by packers, processors, and food chains would be more easily withstood by farmers if farm prices and income were maintained at satisfactory and stable levels.

Low farm prices and income compound the problems of farmers in sustaining themselves in landownership and farming.

Because this is true, we cannot simply go on as we are and let nature take its course. We must instead act positively on farm income and on measures to assure that we continue to have a predominantly family-owned, family-operated farming system in the Nation.

I want to call attention to the attachment to my statement which is a copy of an article that came out in the October 6 Journal of Commerce. This article is quoting Richard Ellis.

This is what you referred to earlier, Senator Baucus, the landownership by pension funds in Britain. In his article he states, "U.S. pension funds is 'only 2 percent,' as compared with levels as high as 30 percent in the country such as Great Britain."

This is an interesting article. The article also states Mr. Ellis is a real estate adviser and consultant in the United States. He has three offices—Chicago, Atlanta, and San Francisco.

He is advocating, of course, that not only pension funds in foreign countries should be as they are, but also the United States should be developed accordingly.

When you see these reports and things coming out, we do not need any encouragement today to get people to come out and invest money in farmland. We need encouragement and incentive where there is a decent price for farmers so that they can survive.

Thank you.

Senator BAUCUS. Mr. Stone, thank you very much. Your prepared testimony in its entirety will be made part of the hearing record.

[The prepared statement of Mr. Stone follows:]

National
Farmers Union

AMERICA'S STAKE IN OUR FAMILY-OWNED, FAMILY-OPERATED FARMING SYSTEM

A Statement By

George W. Stone, President
National Farmers Union

Presented to the

U. S. Senate Select Committee on Small Business
Washington, D. C.

October 8, 1980

In opening this statement here today, National Farmers Union wishes to commend the Small Business Committee and particularly its Chairman, Senator Gaylord Nelson, not only for scheduling this hearing but for the long-term interest you have taken in the preservation of the family farm system in America.

Senator Nelson and the Committee have provided a splendid service to U.S. agriculture with the 1975 hearings on the survival of the family farm system, with Committee staff studies on the subject and with the reports you have caused the General Accounting Office (GAO) to make on farm land ownership questions.

Now, you have again acted at a crucial time to examine some of the factors which are threatening the future of our agricultural system based on family-owned, family-operated units.

It is timely that you are doing this because agriculture is facing some disturbing challenges.

In March, 1978, when Secretary Bergland launched his national dialogue on the structure of American agriculture at our Kansas City convention, he warned:

> "We must act now to insure the kind of American agriculture we want in the years ahead. I do not want to see an America where a handful of giant operators own, manage and control the entire food production system -- yet that is where we are headed if we don't act now."

● Suite 600, 1012 14th Street, N.W., Washington, D.C. 20005 — Phone (202) 628-9774

More recently, USDA has issued a more specific warning in the form of the projections to the year 2000 on "U.S. Farm Numbers, Sizes and Structural Dimensions."

This important report, which was intended by its authors to provide "A boundary notion of where present trends are likely to lead in the absence of significant changes in the underlying forces," shocked many people, and it should have shocked them.

It indicated that if we continue just as we are, by the year 2000, this will have happened:

- The number of farming units will drop to 1.8 million.
- Agricultural production and farmland ownership will be dominated by fewer and fewer farming units.
- Half of the farm land will be farmed by the largest 50,000 farming units and they will account for two-thirds of the output.
- Young, potential farmers will have increasing difficulty getting started in farming. The number of farmers under age 35 will decline by 40%.
- Corporations and partnerships will account for half the farm output.
- Two-thirds of the wealth in the farm sector will be in the hands of those associated with farms grossing more than $100,000 a year.
- Capital requirements will rise to $2 millions per farm for units with sales of $100,000 or more -- nearly double what was required in 1978.

Properly understood, these projections should spur us to examination of needed improvements in the farm stabilization programs, tax, credit and land ownership regulations.

National Farmers Union will be making its recommendations early in the new year, for comprehensive new farm legislation in 1981, together with needed changes in tax, credit and land ownership regulations. All of this will be designed to assure the continuation of a predominantly family farm structure of agriculture.

We are convinced in Farmers Union that family-owned, family-operated farms are indispensible to a strong national economy.

As a prelude to the legislative deliberations which will have to be undertaken by the new Congress, it will be useful for this hearing to examine the trends which are undermining the family farm system.

Members of the Committee we expect are aware of the attention that has focussed on foreign investment in U. S. farm land over the past several years.

Prior to the adoption and implementation of Public Law 95-460, the "Agricultural Foreign Investment Disclosure Act", (AFIDA) in 1978, the extent of foreign ownership or control of U. S. farm land was largely conjectural. Ownership was well concealed and almost impossible to document.

State Legislatures, considering legislation to deal with alien or corporate ownership, encountered frustrations in establishing the dimensions of the problem.

National Farmers Union actively supported the development and adoption of P.L. 95-460, as a "right-to-know" measure and particularly advocated the provisions assuring public access to the disclosure reports.

Congress has now received the first and second reports evaluating the disclosure reports required by the law and even though a considerable number of reports (2,300) are still in various stages of processing, the magnitude of the problem has begun to emerge.

Some in USDA and in the media have seized upon indications that foreign ownership involves less than a half-percent of U.S. farm land to term the problem inconsequential.

In doing so, they miss the point in several respects:

- As of February 1, 1980, foreign interests held 5.6 million acres of land.
- Foreign ownerships of farm land were disclosed in 49 states.
- More U.S. farm land has been acquired by alien investors in the past five years than in the preceding 50 years.
- Corporations own 81% of the total foreign-held acreage, individuals only 8%.
- About 20% of the investments have been made through countries which have tax treaties enabling their investors to shelter their transactions for concealment and tax avoidance.

Real estate industry estimates have been that foreign investment in American farm land has totalled about $1 billion a year in recent years.

Substantial as that figure may be, it is small compared to the potential of proposals which would tap pension fund assets for investment in farm land.

There are some pension fund investments in farm real estate, but they are modest to this point. Of the $600 billions in current pension fund assets, about 60% is invested in the stock market, about 11% in government securities, about 12% in corporate securities, and the remainder in a variety of investments, including mortgages, trusts, pooled funds, and real estate.

However, real estate makes up only about 2% of the typical portfolio and agricultural real estate only a minor fraction of that amount.

In part this may be because of the chronically low economic returns and the high risk involved in farming.

Returns to equity in farming ranged between 2.6% and 10% in the decade of the 1970's and averaged 4.8%. This compares with an average return on stockholders' equities in manufacturing industries of 21% for the same period.

Nevertheless, there are some pension fund investments in farm land and considerable interest based apparently on the speculative possibilities.

You will recall the "Ag-Land Trust" proposal attempted in 1976 and 1977 by Continental Illinois National Bank and Trust Co. and Merrill-Lynch. It was proposed to establish pools of $50 millions each in pension fund investments for investment in farm land, with the intention of being tax free both on earned income and capital gains. Primarily, the goal was land speculation and its profitability was dependant on a continuing high rate of inflation.

"Ag-Land Trust" was scrapped by its promoters after a Congressional hearing in early 1977, largely due to the public and Congressional revulsion to the idea.

The new proposal, that of American Agricultural Investment Management Corporation (AAIMC) differs in a number of respects from "Ag-Land Trust," yet it would also rely on speculative gains in land values and continuing inflation.

One firm that has gone into farm land investments more than most others is the Travellers Group Pension Division.

The real estate division of Travellers Group Pension Division had more than $6 billions under its management in 1979, and of this total, 18.7% or about $1.1 billions was in agricultural real estate and included equities in properties, first and second mortgages and sales contracts.

Farm holdings included 53 farm and timber properties with rates of return ranging between 10.50% and 16.60%, with an average return of 12.82%.

Of course, the profitability of such investments is based upon expectations of inflation, rather than upon the earning power of the land in farm production.

The Travellers Group 1979 report acknowledges as much when it observes that:

> "Operationally, agriculture remains a high-risk business. Yet it utilizes one of the world's most durable and sought-after resources (land) and the demand for its unique products is universally expected to increase over the long term."

Earlier we noted that pension fund assets now total $600 billions. It is projected that they will rise to $1.5 trillions by 1990.

Farm real estate assets currently total $599 billions. Assuming an average inflation rate of 6%, farm real estate assets will rise in value in ten years to $1.1 trillion, plus whatever addition farmers make through real estate improvements. (From 1970 to 1977, farm real estate improvements added $25.6 billions to the total of farm real estate values.)

Theoretically, there will be more than enough assets in pension funds in the future to buy all the farm land in the nation, if that were the choice of the fund managers.

However, no one expects that to happen. But, even a small shift of pension fund money into farm land would be felt. If as little as 3% of the $600 billions in pension fund assets were shifted into farm investments that would amount to $18 billions. That would exceed the total value of farm real estate transfers in the past year, which according to USDA-ESCS, was $16.4 billions.

If 10% of the pension fund assets were to go into agriculture, that would mean an influx of $60 billions of new capital bidding on farm land under present conditions and $150 billions by the year 1990.

A doubling of the amount of capital seeking to acquire farm land would certainly cause inflationary increases in land prices. The impact would be much greater than the price spiral in the 1970's.

The effects would be even more severe if the pension fund investments were targetted in limited areas -- for example, singling out only prime farm acreage, concentrating on row-crop acreage, or upon specific commodities.

The ability of beginning farmers (or existing farmers seeking to expand their operations) to bid for land would certainly suffer by the presence of institutional investors who would not have to pay for the land from its agricultural earnings.

Young farm couples already face ominous obstacles in acquiring ownership of a viable farming unit. Their hopes would virtually be eliminated by the competition for land of vast amounts of absentee capital.

Advocates of institutional investment in farm real estate contend they would be doing a huge service to farmers in relieving them of the necessity of owning the land they farm. Such a separation of land ownership and farming operations, it is said, would allow farmers to put their limited capital into production.

This is a phony argument. The operating farmer pays a land cost whether he owns or rents. He pays land costs as a cash renter or as a share-cropper. The difference is that he acquires no equity in the land and has less control of his own destiny if he does not own the land he farms.

As for the American Agricultural Investment Management Co., National Farmers Union opposes it for the same basic reason as we opposed the "AG-LAND TRUST" scheme three years ago. We do not need or want a new generation of share-croppers on the land.

Public policy ought to be helping families become owners of farm land, rather than separating them from that possibility.

The promoters of AAIMC and other institutional investors often try to justify their plans by pointing to the capital deficit in agriculture. They do not understand the truth, which is that we have an income deficit rather than a capital deficit. In an agriculture earning fair economic returns, farmers would be able to command all the credit they need. Those who think that all that is needed is more borrowed capital are looking at the wrong end of the problem.

There, of course, has been a credit crunch in agriculture from time to time, partly because of farm income ranging between 60 and 70% of parity and partly because of damaging tight-money, high interest rate policies on the part of the Federal Reserve Board.

These conditions have forced farmers to try to substitute credit for income.

If there is any genuine interest on the part of investors in serving the credit needs of agriculture, there are ways to do it without depriving farmers of the ownership of their land.

The simplest way would be for these investors to invest in debentures of the Farm Credit Banking system.

Another way would be to devise methods by which investors could place their assets into land transfer programs, such as are operative in Saskatchewan and Minnesota to provide low-cost entry loans to beginning farmers. The difference between the program's interest rates and prevailing interest costs could be subsidized by the federal or state governments.

However, the intrusion of investment capital into agriculture in a way which separates land ownership and farm operation is, in our judgment, unneeded, unwelcome, undesirable and disruptive.

We say this, not along because of the impact on farmers who can never be more than share-croppers, but on behalf of other family farmers who must compete with the absentee-owned, absentee-financed units.

The supply of farm land in the nation is gradually shrinking, as an estimated 2 million acres of cropland is lost each year to nonagricultural uses.

The influx of pension fund assets will inflate land prices severely and to the extent that this happens, family farmers purchasing land will have less net money to put into land or farming inputs.

We have other concerns about absentee ownership and control.

It is generally recognized that families owning, living on and farming the land are the best stewards of these natural resources.

There is evidence to suggest that absentee owners, whether corporations or investors, are less likely to participate in federal soil conservation programs and more likely to be interested in all-out production in any circumstances even when family farmers may recognize the need for a set-aside or supply management measures.

It might be contended that since the AAIMC proposal intends for the land to be purchased with pension fund assets to be turned over to professional farm managers, that the care of soil and water resources would be adequate. Still we can visualize circumstances in which the profit motive would over-ride the need for conservation investments which do not yield an immediate return.

Because the corporate investment inherent in the AAIMC and similar systems is so potentially destructive to the family farm structure of American agriculture, we believe that the state or federal governments, or both, should take steps which would have the effect of hanging a "NO TRESPASSING" sign on farm real estate.

Since land ownership laws and regulations are usually the province of state governments, the state legislatures can extend the laws which they already have to restrict corporate or alien land ownership and farming to apply to the pension fund or other corporate investment funds.

The constitutional right of state legislatures to maintain laws limiting corporate or alien ownership of land for farming has been frequently upheld in the courts. We see no legal problem with extending such restrictions to corporate institutional investors.

There are also remedies available at the federal level. One possibility would be the adoption of the Family Farm Antitrust Act, which has been considered in House and Senate hearings, restricting the activities of corporations with assets of $3 to $5 millions in agriculture.

Another opportunity is available in the form of the Employee Retirement Income Security Act of 1974 (ERISA), Public Law 93-406.

The ERISA Act has some rather strict guidelines on pension fund investments. Section 1104 of that Act provides that:

> "A fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and (a) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the plan, (b) with the care, skill, prudence and diligence . . . that a prudent man . . . would use . . . by diversifying investments of the plan so as to minimize the risk of large losses."

Since 1974, several court cases have resulted in decisions upholding the "exclusive benefit" and "prudent man" directives.

It seems to us that Section 1106 of the ERISA ACT, which enumerates "prohibited transactions," by fund managers could be amended either to prohibit or to limit the investment of pension fund assets in land for farming.

On the basis of moderating the risks in investments, a limit of perhaps 5 to 10% could be placed on the proportion of a fund's assets which could be placed in agricultural real estate investments.

We would prefer, however, to see future investment of pension funds in agricultural land barred entirely, with a provision for divestiture within ten years of land now owned by pension funds.

In conclusion, we wish to observe that the various challenges to the family farm system, by alien or corporate investors, by syndicates and tax-shelter farming, by corporate integration and contract farming, and by the growing dominance of markets by packers, processors and food chains, would be more easily withstood by farmers if farm prices and income were maintained at satisfactory and stable levels.

Low farm prices and income compound the problems of farmers in sustaining themselves in land ownership and farming.

Because this is true, we cannot simply go on as we are and let nature take its course. We must instead act positively on farm income and on measures to assure that we continue to have a predominantly family-owned, family-operated farming system in the nation.

JOURNAL OF COMMERCE 10-6-80

Pension Funds Eye Real Estate Investments

By PHIL ZINKEWICZ
Journal of Commerce Special

Multinational corporations today, as they focus more attention on their employee benefits and pension programs, appear to be zeroing in on alternative methods of managing pension fund assets.

Here, in the United States, according to one expert firm, very few funds have made use of the benefits of real estate acquisitions in their management of assets.

According to Richard Ellis, international real estate consultants, the present percentage of funds invested in equity real estate by U.S. pension funds is "only 2 percent," as compared with levels as high as 30 percent in the country such as Great Britain.

Nevertheless, the real estate consultant firm believes there is a growing trend on the part of pension funds in the United States to make real estate a significant part of fund portfolios. And, say executives of Ellis, there are four principal reasons for this.

Four Principal Reasons

First, according to Ellis, there is a recognition of the need for investment diversification, spurred in the United States in part by the requirements of the Employees Retirement Income Security Act. Secondly, according to Ellis executives, there has been dissatisfaction with the uncertainties and volatility of the equity market.

In addition, notes Ellis, corporate sponsors are demanding better performance from pension funds to lessen contribution demands and, finally, plan sponsors are demanding investments which protect against the effects of inflation.

Richard Ellis is a worldwide consulting firm with offices in the United Kingdom, France, Belgium, Holland, Spain, Germany, Switzerland, Hong Kong, Singapore, Australia, Brazil, and the United States. In the United Kingdom, Ellis invests directly on behalf of its clients some $500 million a year in free and clear transactions. In the United States, the firm has already concluded deals approaching $300 million represented by some 40 properties.

During a press conference, Andrew Huntley, senior investment partner, likened the recent interest on the part of U.S. funds in real estate investments to what has occurred in the United Kingdom over the past 20 years.

Said Mr. Huntley: "After 1960, when inflation such as is now experienced hit Britain, the need to hedge against inflation prompted pension funds and life assurance companies to invest in equity real estate — participating in the stability and growth that the store, office and industrial property markets afforded.

"From a position of almost zero investment in this sector," continued Mr. Huntley, "U.K. funds now hold around 20 percent, and some have as high as 30 percent, of their overall investment portfolio in property."

The reason for the increased activity in real estate on the part of U.K. pension funds, according to Mr. Huntley, was inflation.

Stable, Secure, Tangible

"Funds needed a product which was stable, secure and tangible and which also provided, over a period of time, a real return at least equivalent to and comparable with the equity share or the gilt-edged bond.

"In fact, portfolio analysis is now demonstrating that direct real estate investment is now out-performing stocks and bonds," noted Mr. Huntley.

Today, some 20 years after the U.K.'s pension fund industry made its entry into the real estate arena, Mr. Huntley is predicting that U.S. funds will, over the next 10 years, be doing the same.

For those U.S. funds, says Mr. Ellis, the prospect of increasing real estate portfolios for reasons of growth and security is a highly attractive situation.

"There is political and economic stability in the states," he said. "Stricter planning requirements and environmental regulations are bringing about a scarcity of property and values of rentals and the capital values of properties are therefore increased."

Since 1976, Richard Ellis has been operating as real estate advisers and consultants in the United States, now with three offices here — Chicago, Atlanta and San Francisco.

Says Mr. Huntley, "It has been our experience and our rule that our offices outside the United Kingdom will not operate exclusively on the basis of expatriot funds. All our companies must be self-financing and successful individually.

"We believe the experience we have had under similar economic conditions and the track record we have to date in the states, puts us in a unique position to assist U.S. institutional funds to improve their portfolio performance by including property equity in their investments."

According to D. A. Sizer, the probability of pension fund managers depending more heavily on real estate investments is one which has already been apparent in some countries other than the United Kingdom. In Holland, there is a very strong market for real estate investments, he said, as well as in Germany, although, he added, that there the market is a national one, with the only foreign investors being the Dutch and the British.

Mr. Sizer said that some U.S. funds will be able to plunge into the real estate market faster than others. The ability of a corporation to alter its fund's asset picture depends on the firm's make-up, the average age range of the group within the fund, the capability of a firm to live with a reduced cash flow for the purposes of long-range investment benefits and other factors.

"Take a firm with employees who are in a relatively high age bracket," said Mr. Sizer, "and one in which the business is static with a declining work force. As pension benefits begin to flow out with fewer contributions flowing in, it would become more painful for the fund manager to get out of one or another investment and into real estate.

"On the other hand, take a firm with employees who fall into a low average age bracket, where business is increasing and also the size of the workforce, and fund managers can less painfully make the transition," he said.

STATEMENT OF CATHERINE LERZA, INFORMATION DIRECTOR, NATIONAL FAMILY FARM COALITION

Ms. **Lerza**. Mr. Chairman, my name is Catherine Lerza. I am the information director of the National Family Farm Coalition, a nonprofit national membership organization based here in Washington.

The Coalition works to create broad-based public and congressional support for changes in Federal agriculture policy that will help, rather than hurt, America's family farmers. We believe that a family-farm-based agricultural system is as beneficial to America's consumers as it is to America's farmers.

We would like to take this opportunity to thank you, Mr. Chairman, on behalf of our membership for having cosponsored S. 2780, the Family Farm Development Act, a comprehensive piece of legislation that would make needed changes in the Federal agricultural policy, the kind of changes that would help family farmers. We appreciate your leadership in that area.

We also commend this committee for recognizing the importance of the proposals of the American Agricultural Investment Management Co. and for holding this informational hearing.

This investment plan and others like it will dramatically alter the future structure of American agriculture as well as our entire economy. These hearings take on significance as an important vehicle by which information about AAIM and other nonfarm investors in farmland will reach the general public.

After reviewing the proposals of AAIM and going over the excellent research conducted by Rural America and by the House Agriculture Subcommittee on Family Farms and Rural Development, we could find nothing illegal about AAIM's plans. However, we are compelled, as an organization primarily concerned about the control of food production and distribution in the United States, to oppose AAIM and other investment schemes like it and all they portend for the future of American agriculture.

Further, we urge this committee to begin a careful examination of ways by which nonfarmer investors in agriculture can be either restricted or discouraged.

I would like to read a couple sentences from section 102(a) of the Food and Agriculture Act of 1977 to remind the people in this room what Congress has already said about family farmers:

> Congress firmly believes that the maintenance of the family farm system of agriculture is essential to the social well being of the Nation and the competitive production of adequate supplies of food and fiber. Congress further believes that any significant expansion of nonfamily-owned large-scale corporate farming enterprises will be detrimental to the national welfare.

Nearly every piece of agriculture legislation enacted by the Congress since the beginning of the American Republic has probably made some equivalent pledge to America's family farmers. Yet, I think all of us are familiar with the dismal litany of statistics about what has happened to America's family farmers since the end of World War II. For example, we have about 50 percent less farmers in this country than we did in 1950. Eighty percent of the farmers in this country gross less than $40,000 per year and, without income from off-farm sources to supplement farm sales, some

80 percent of this Nation's farmers would have incomes below the Federal poverty guideline.

I would like to thank Mr. Stone of the National Farmers Union for having presented that even more dismal set of statistics that the U.S. Department of Agriculture recently prepared. Their projections make past trends look almost encouraging by comparison. I would just like to reiterate a couple things Mr. Stone said.

In 20 years, 1 percent of farms in this country will account for half of all farm production.

It will cost a new farmer $2 million just to get a medium-sized farm operation started. That is twice today's capital requirement today.

Two-thirds of the wealth in the farm sector will be in the hands of those who have an interest in farms with more than $100,000 in sales.

The number of farmers under 35 years of age will shrink from 475,000 in the decade of 1964–74 to 284,000 in just 20 years.

These projections combined with what is already happening to America's farmers can lead the National Family Farm Coalition to one conclusion: The family farmer as we have known him or her for the past 200 years does not have much of a future in the United States, not without Federal programs and policies that adhere to the pledge made in the 1977 farm bill.

This future, as projected by USDA and being lived out by thousands of farmers like Marilyn Fedelchak and George Naylor, is dismal enough without the injection of massive amounts of new outside investment from pension funds, increasingly recognized as a major source of new capital in the U.S. economy.

The entire farm economy is now facing an onslaught of nonfarm investment, the dimensions of which are as yet unknown.

Again, to reiterate what Mr. Stone said, a recent USDA study indicates that foreign investment in our food and agriculture system doubled between 1973 and 1978. It is still a small percentage, but it doubled in just 5 years.

More important, the National Family Farm Coalition is concerned that America's farmers will be ill-prepared to face an invasion of capital and investment from foreign investors, pension funds, and other wealthy domestic investors looking for hedges against inflation and for rapid appreciation of their investments.

Farmers who own their lands, while obviously benefiting from appreciating land values, do not buy farmland for that reason alone. They buy farmland in order to produce food profitably—a goal that is beneficial not just to them, but also to all American consumers, to our economy, and to consumers all over the world.

But farmland is now worth more than the food that can be produced on it, particularly in this era of declining farm income and low farm prices. When rapid appreciation of land values is combined with the tax breaks the Federal Government has long given to farmers, farming—or, rather, the ownership of farm operations—becomes a very attractive proposal for people who have no intention of ever coming closer to their land than the local farm management company office.

It is in this way that farming—as an investment—differs from other kinds of investments. When a working American purchases stock or buys bonds, he or she is helping a company, a city, a State, or even a country accomplish its business or social goals. But when an investor purchases farmland or an investor does not plan to farm, he or she is robbing a bona fide farmer—or potential new farmer—of the opportunity to own land and to farm. Investors with large amounts of usable capital can afford to pay much higher prices for land than can a single investor who hopes to make a living for his or her family on that land.

It is for this reason that the National Family Farm Coalition urges the Congress and the executive branch to find ways to limit outside investment in farming in order to maintain the family-owned, operated, and managed farm as the basis of food production in this country. Such restrictions could include restrictions on nonfarm investment in farming such as proposed by the Family Farm Antitrust Act introduced this session in the Senate by Senator Birch Bayh and in the House by Congressman Robert Kastenmeier; it could include tax disincentives to nonfarm investors in farmland like those proposed in the Farm Tax Equity Act which you, Mr. Chairman, Senator McGovern, and Senator Levin have introduced in the Senate this session; or simply outright bans on the ownership of farmland and operations by nonfarm investors.

We would also like to pick up on something that you said earlier. We also have to think about positive measures that will support family farmers. Those include provisions of the Family Farm Development Act and also the Farm Entry Assistance Act, which would help new young farmers get credit so that they can enter farming.

Some of these things may strike some people as un-American and as an abridgement of their individual rights. In fact, I have heard that Mr. Cotter of AAIM feels he is the victim of a witch hunt. However, we have to point out that before the stock market crash of 1929, perhaps investors thought it was their right to purchase stocks and bonds on very thin margins and that corporations and banks should have the right to operate in complete secrecy.

Today the Securities and Exchange Commission monitors and restricts the workings of the stock market, "abridging" the rights of both investors and corporation.

We can look at food and drug laws, civil rights laws, air pollution control laws, occupational safety and health laws, and even the withholding of Federal and local taxes as further abridgement of individual rights.

But individual rights were abridged in all these cases in order to make it possible for this Nation as a whole to reach certain agreed-upon social goals. Of course, these things did not happen without a struggle.

However, the time has come to end the rhetorical commitment to the family farm and take action to keep family farmers on their land, encourage new farmers, and protect a system of food production that provides consumers with a stable and high quality supply of food.

Agricultural economist Don Paarlberg, formerly with the U.S. Department of Agriculture, has written a new book. In it, he argues that a way to solve the family farm problem is to redefine the family farm. In doing so, he maintains that we can accept what is happening to the structure of agriculture in this country.

As he explains it, "The farmer will rely increasingly on nonfarm sources of capital. More land will be rented, more money will be borrowed, more specialized services will be hired. As it becomes increasingly difficult for farmers to supply all the factors of production, he will gradually slough off providing of capital, owning the land, and even supplying the labor. He will retain to the last the most precious role of all, entrepreneurship—the decisionmaking function."

But we have to argue that without capital, without land, and with the need to rely on outside jobs for adequate income, it is hard to see how the farmer of the future is going to be able to make any decisions, given that he or she will have no control over any production resources. When you place this in the context of a marketing system which is already concentrated in a few hands, which is becoming more concentrated every year, there is no way for a farmer to exercise effective decisionmaking power over any phase of his operations. The farmer then becomes a wage worker or a tenant, making profits for somebody else—or for many other people.

But Professor Paarlberg is right—we do have to make a choice. We can either accept the redefinition of the family farm and all that goes with it, we can accept the activities of the American Agricultural Investment Company, or we can make some hard political decisions that may bring us—legislators, policymakers, and advocates alike—into conflict with those whose interests are being served by letting present trends continue and accelerate.

The NFFC and its members are ready to face that conflict, and we think America's farmers, consumers, and working people are ready to do so, too. We, therefore, urge the Congress and the executive branch to take steps to restrict or discourage nonfarm investors in the farm economy.

Thank you.

Senator Baucus. Thank you very much. Your prepared statement in its entirety will be made part of the hearing record.

[The prepared statement of Ms. Lerza follows:]

NFFC National Family Farm Coalition

STATEMENT BY

CATHERINE LERZA,
INFORMATION DIRECTOR
NATIONAL FAMILY FARM COALITION

BEFORE THE
U.S. SENATE SMALL BUSINESS COMMITTEE

OCTOBER 8, 1980

918 F Street, NW • Second Floor • Washington, DC 20004 • Telephone (202) 638-6848

My name is Catherine Lerza, information director of the National Family Farm Coalition, a nonprofit national membership organization based here in Washington.

The Coalition works to create broad based public and Congressional support for changes in federal agriculture policy that will help, rather than hurt, family farmers.

We particularly appreciate the opportunity to make a statement about the plans of the American Agriculture Investment Management Corp. to invest employee pension funds in farm operations and to manage those farms. We commend this Committee for recognizing the importance of AAIM's proposals and for holding this informational hearing. This investment plan, and others like it, could dramatically alter the future structure of American agriculture--and the nation's entire economy. These hearings take on significance as an important vehicle by which information about AAIM and other non-farm investors in farm land will reach the general public.

Our statement is relatively brief. After reviewing the proposals of AAIM, the excellent research conducted by Rural America, Inc., and by the House Agriculture Subcommittee on Family Farms and Rural Development, we found nothing illegal about AAIM's plans. But we are compelled, as an organization primarily concerned about the control of food production and distribution in the U.S., to oppose AAIM and other investment schemes like it -- and all they portend for American agriculture.

Further, we urge this committee to begin a careful examination of ways by which non-farmer investors in agriculture can be either restricted or discouraged.

Section 102(a) of the Food and Agriculture Act of 1977 states:

> "Congress hereby specifically reaffirms the historical policy of the United States to foster and encourage the family farm system of agriculture in this country. Congress firmly believes that the maintenance of the family farm system of agriculture is essential to the social wellbeing of the Nation and the competitive production of adequate supplies of food and fiber. Congress further believes that any significant expansion of nonfamily owned large-scale corporate farming enterprises will be detrimental to the national welfare. It is neither the policy not the intent of Congress that agricultural and agriculture-related programs be administered exclusively for family farm operations, but it is the policy and the express intent of Congress that no such program be administered in a manner that will place the family farm operation at an unfair economic disadvantage.

Nearly every piece of agriculture legislation enacted by the Congress since the beginning of the American republic has made some equivalent pledge to American's farmers. Yet, as all of us here today realize, America's farm population has declined by fifty percent since World War II. 80 percent of our farmers gross less than $40,000 per year and, without off farm income to supplement farm sales, some 80 percent of this nation's farmers would have income below that federal poverty guideline level. I need not continue this dismal litany of statistics about the decline of what most of Americans think of as "family farmers."

But a recent report issued by the U.S. Department of Agriculture makes some projections about the future of American Agriculture that almost make past trends look encouraging in comparison. For instance:

By the year 2000, there will be only 1.8 million farms in this country, down from 2.9 million in 1974.

One percent of farms will account for half of all farm production in the year 2000. The smallest 50 percent of farms at the turn of the century will produce only one percent of our food.

About 96 percent of total farm production will come from farms with sales at least $100,000.

About 58 percent of farm land will be operated by farms of at least 2000 acres. Half of the farm land will be farmed by the largest 50,000 farms and nearly all of the land will be worked by the largest one million farms.

It will cost a new farmer $2 million just to get a medium sized farm started--this is nearly double the capital requirements of 1978.

Two-thirds of the wealth in the farm sector will be in the hands of those who have an interest in farms with more than $100,000 in sales.

The number of farmers under 35 years of age will shrink from 475,000 in 1964-1974 to 284,000 in 2000.

These last projections are of major concern to us today. Only 25 percent of the people who own farm land today are farmers. Only 60 percent of total farm land is owned by farmers. The price of farm land has risen 350 percent, on the average, since 1967. These statistics lead us to one conclusion: the family farmer as we have known him and her for the last 200 years doesn't have much of a future here in the U.S. Not without federal programs and policies that adhere to the pledge made in the 1977 farm bill.

And this future, as projected by U.S.D.A. and being lived out by thousands of farmers, is dismal enough without the injection of massive amounts of new outside investments from pension funds, increasingly recognized as a significant source of new capital in the U.S. economy.

The American farm economy is now facing an onslaught of non-farm investment, the dimensions of which are as yet unknown. For instance, a U.S.D.A. study indicates that foreign investment in our food and agriculture system doubled between 1973 and 1978.

The NFFC is concerned that America's farmers will be ill-prepared to face an invasion of capital and investment from foreign investors, pension funds and other wealthy domestic investors looking for hedges against inflation and rapid appreciation of their investments. Farmers, who own their lands, while obviously benefitting from appreciating land values, do not buy farm land for that reason alone. They buy farm land in order to produce food for a profit--a goal that is benficial not just to them, but also to American consumers, to our economy and to consumers all over the world.

But farm land is now worth more than the food that can be produced on it, particularly in this era of declining farm income. When rapid appreciation is combined with the tax breaks the federal government has long given to farmers, farming becomes a very attractive proposal for people who have no intention of coming closer to their land than a farm management company office.

It is in this way that farming--as an investment--differs from other kinds of investments. When a working American purchases stock or buys bonds, he or she is helping a company, a city, a state or even a country accomplish its business or social goals. But when an investor purchases farm land, he or she is robbing a bonafide farmer--or potential new farmer--of the opportunity to own land and to farm. And investors with large amounts of useable capital can afford to pay higher prices for land than can a single investor who hopes to make a living for his/her family on that land.

It is for this reason that the National Family Farm Coalition urges the Congress and the Executive Branch to find ways to limit outside investment in farming in order to maintain the family-owned, operated and managed farm as the basis of food production in this country. This might mean restrictions of non-farm investment in farming, tax disincentives to non-farm investors or outright bans on the ownership of farm land and operations by non-farmers. While this may strike some people as unAmerican and an abridgement of individual rights, we point out that before the stock market crash of 1929, investors might have thought that it was their "right" to purchase stocks and bonds on thin margins and that corporations and banks should have the right to operate in complete secrecy. Today, the Securities and Exchange Commission monitors and restricts the workings of the stock market, abridging the rights of both investors and corporations. Before the passage of the Pure Food and Drug Act in the early 20th century, "caveat emptor" ruled the market place to a much greater degree than it does not. Food and drug makers are not restricted in their "right" to sell whatever they chose without regard to health and safety. One can look at civil rights laws, air pollution control laws, occupational safety and health laws, and even the withholding of federal and local taxes as further abridgement of individual rights.

But individual rights were abridged in all these cases in order to make it possible for this nation as a whole to reach certain agreed upon social goals--not without struggle, we must admit. The time has come to end the rhetorical committment to the family farm and look at what can be done to keep family farmers on their land, encourage new farmers, and protect a system of food production that provides consumers with a stable and high quality supply of food.

Agricultural economist Don Paarlberg in a new book argues that one way to "solve" the family farm problem is to redefine "family farm." In doing so, we can accept what is happening to the structure of agriculture. As he explains, "The farmer will rely increasingly on non farm sources of capital. More land will be rented, more money will be borrowed, more specialized services will be hired. As it becomes increasingly difficult for farmers to supply all the factors of production, he will gradually slough off providing of capital, owning the land, and even supplying the labor. He will retain to the last the most precious role of all, entreprenuership--the decision making function." (Farm and Food Policy-Issues of the 1980s, pg. 198.)

But we must argue that without capital, without land, and with the need to rely on outside sources of capital for adequate income, it is hard to see how the farmer of the future can really make decisions--given that he or she will have no control over any production resources. And when this situation is placed in the context of a marketing system which is increasingly concentrated in fewer and fewer hands, there will be no way for a farmer to exercise any effective decision making power at all. The farmer becomes a wage worker, or a tenant, making profits for somebody else--or for many other people.

But Professor Paarlberg is right--we have to make a choice. We can either accept the redefinition of the family farm and all that goes with it, or we can make some hard political decisions that may bring us--legislators, policy makers and advocates alike--into conflict with those whose interests will be served by letting present trends continue and accelerate. The NFFC and its members are ready to face that conflict and we belive that America's farmers and consumers are ready to do so, too. We therefore urge the Congress and the Executive Branch to take steps to restrict or discourage non-farm investors in the farm economy.

Thank you.

STATEMENT OF DON REEVES, CHAIRMAN, AGRICULTURAL POLICY WORK GROUP, INTERRELIGIOUS TASK FORCE ON U.S. FOOD POLICY, ACCOMPANIED BY FERDINAND HOEFNER, TASK FORCE STAFF MEMBER

Mr. Reeves. I am Don Reeves. My wife, Barbara, and I are the senior partners in a two-family farming operation in Merrick County, Nebr. My family is currently on "sabbatical." I am on the staff of the Friends Committee on National Legislation, and I am also very active in the Interreligious Taskforce on U.S. Food Policy. I am taking my turn as chairman of that work group.

With me this morning is Ferdinand Hoefner, a task force staff person who services this work group and who has a very strong background in economics.

We do not pretend that this statement is endorsed by all of the members of all the 27 groups that are part of the task force. On the other hand, we are fairly confident that it is consistent with major policy statements by several of these groups and compatible with the outlook of nearly all the groups that take part.

We have a prepared statement which I think repeats much of what has already been said. Therefore, I will not try to read all of it.

I would note that we challenge two assertions that have been made by the American Agricultural Investment Management Co.

The first is that the agricultural sector needs additional capital and there is no better way to support agriculture than with the retirement savings of Americans.

The second assertion that we will challenge has already been quoted—that is, that "it is a mistake to assume that the owner-operator system of agriculture is beneficial to this Nation."

We would only underscore what has already been said about the need for additional capital in agriculture. If there is a need for additional capital, it is a very limited need and needs to be focused in very particular ways. An undifferentiated influx of capital, such as would come out of this proposal, can only add to inflation. Even though it is justified as a hedge against inflation, it feeds right back into that process.

One point that has not been noted by previous witnesses is that not only would it be inflationary, but it would also result in additional carrying costs for all farmers from now on into the future. Higher sales prices lead directly to higher land assessments and higher property taxes. That reduces the ability of farmers to earn a decent livelihood in a farming operation.

The second assertion, having to do with the style of agricultural system we have, we want to challenge that head on. There is a great body of support for such a challenge within the religious communities.

Last April in connection with the structure hearings 15 national religious leaders issued a statement declaring their support for public policy which would "actively encourage the preservation of an agriculture based primarily on small and moderate-sized family farms." That statement called for the elimination of Federal policy incentives that favor large units, stimulate absentee ownership, or encourage corporate control of resources. A copy of this statement is attached to our statement for the record.

There are a number of demoninational statements concerning the type of farm system desirable for the future. We have included excerpts from two. One is a statement on Rural America: Life and Issues, adopted by the 12th General Synod of the United Church of Christ in 1979:

> The overriding argument of the family farm is political. The family farm represents a relatively broad dispersion of ownership, control and power in a society where concentration of economic power and control has already gone much too far.

There is another excerpt from the U.S. Catholic Conference, a recent statement in The Family Farm:

> The ideal family farmer is the resident owner-operator, the man (or woman) whose land is his home and livelihood. The land is a gift from God, and the farmer should pass it on unimpaired to the next generation. The renter may not hold his lease five years from now. No matter how conscientious he may be, he cannot be expected to have the same feel for his farm as the person who sees it as the link that binds his family together in space and through time. Stewardship of our most basic natural resource depends heavily on maintaining the farm as a stable homestead.

I would point in passing to what I see as two major departures from the family farm system in our national history. One is the plantation system that was built in the southeastern part of the country, and then its successor, the sharecropping system. The other major exception, in my view, is the hacienda system which we inherited from the Spanish tradition in the southwestern part of the country. I think it is no coincidence that an undue share of urban poverty in the United States has its roots in those sections of the country.

I would, likewise, point to what I see as a parallel development in the poor countries of the world where the ownership of the land is separated from the work force in one way or another. All of those countries are suffering, and urban poverty flows directly from the rural poverty that comes out of this maldistribution of access to the resources.

I want to emphasize some of the human elements of this and cite a personal experience. I got my start in farming when an about-to-retire neighbor went with me to the widow from whom he rented. I have since purchased that farm from the heirs of that widow.

The next expansion of my operation came when another couple who were about to retire came to me and offered to lease their farm on a concessional basis for the first couple years.

It is unlikely that either of these decisions could have taken place had these farms been in the hands of a professional farm management agent. A beginning farmer with a very thin line of credit and with borrowed equipment is just not a good risk, especially to managers of a trust fund who have, of necessity, a different criteria of accountability.

I would like to think that my community has been strengthened by expressions of confidence not only toward me but toward other fellows trying to get started. I will put a lot of energy into trying to preserve the opportunity for decisions which express that kind of human concern.

In terms of recommendations, we would urge this committee to recognize the proposed pension fund investment scheme, and the threat that it poses to family farmers, rural communities, and the long-term productivity of U.S. agriculture not as an isolated occurrence, but as part of the larger trends toward fewer, larger, more specialized farms and separation between risk, management, and labor.

In order to prevent the further deterioration of the family farm system of agriculture, Congress should consider measures of three types:

One is to remove the Federal policy incentives currently in place which encourage growth in farm size and stimulate absentee investment from a variety of sources.

Second is to restrain nonfarm involvement in farming.

Third is to enable small and moderate-sized owner-operated farms to remain economically viable.

Three measures which are already before the Senate have already been mentioned:

One is the Farm Tax Equity Act. I see that as only a hint at the kind of problems that need to be addressed. Although my understanding of the pension fund scheme is that they would not have quite the same advantage to capital gains treatment of income that individual investors would, it is a parallel kind of concern that comes out of not only preferred treatment of pension funds—capital gains treatment of profits from the sale of farmland—but the whole tax loss arena in which real or artificial losses in farming can be used to offset income from other kinds of investments. We support the Farm Tax Equity Act as just a beginning to this whole complex issue of tax rules.

One of the other two measures that is already before the Senate is the Family Farm Antitrust Act. Such legislation should be more restrictive than, but along the same lines as, S. 331, introduced by Senator Bayh.

Senator Nelson's Farm Entry Assistance Act is an approach to targeting outside capital into agriculture to limited resource and beginning farmers which all think Congress ought to support.

Finally, we would suggest that the attention raised by this pension fund investment proposal ought not be directed primarily toward the AAIM, but toward the public policy rules under which pension plan trusts are held and managed. So far as we are aware, there is nothing illegal about what is proposed, nor is any enabling legislation or administrative ruling required. Perhaps the wonder is that such a proposal did not appear sooner.

The phenomenon may be more in the nature of unintended consequences of rules established for unrelated reasons. We do not here either challenge or endorse the basic rule that income tax liability may be deferred for contributions to pension funds and income thereto until the proceeds are distributed. Instead, we would suggest that the preferred tax treatment might well be accompanied by provisions requiring that the favored funds be invested under additional criteria of social productivity.

We would suggest a couple examples:

There might be a requirement that a sizable block of funds might be reinvested in the industry from which they come—in some way equivalent to retiring farmers who depend on the equity in their farms for retirement income. Certainly, some of this already occurs, but is it in such a way that current and former employees have a role in decisionmaking? I suspect that is not the case.

Second is an even broader arena. Some consideration needs to be given to national needs, probably defined through a more orderly system of shared national planning. Currently, for example, there seems to be a large measure of consensus about the need for additional employment, for additional housing, for reindustrialization leading to greater productivity, for solar energy development, for the revitalization of inner cities, and, we would very pointedly add, a program for enabling younger farm families to become established owner-operators.

The continuing presence of these current social needs is evidence that private capital does not always find its way into the most needed areas. It would not seem out of order to us that a policy decision to encourage the accumulation of pension funds might be accompanied by incentives or requirements that would tilt their use toward meeting commonly agreed-on needs. This is the sort of discussion that the task force and the community that it represents would very much like to engage in with Congress.

Thank you.

Senator BAUCUS. Thank you very much, Mr. Reeves. Your prepared statement in its entirety will be made part of the hearing record.

[The prepared statement of Mr. Reeves follows:]

INTERRELIGIOUS
TASKFORCE ON US FOOD POLICY
110 MARYLAND AVENUE, NE, WASHINGTON, DC 20002 202/543-2800

Statement by Don Reeves
Chair, Agricultural Policy Work Group
Interreligious Taskforce on US Food Policy
before the
Select Committee on Small Business
US Senate
October 8, 1980

I am Don Reeves. My wife, Barbara, and I are the senior partners in a two-family grain and livestock farming operation in Merrick County, Nebraska. My family is currently on "sabbatical." I am on the staff of the Friends Committee on National Legislation and an active member of the Interreligious Taskforce on US Food Policy, currently serving as chair of its Agricultural Policy Work Group.

The Interreligious Taskforce on US Food Policy welcomes this opportunity to present a statement on the proposed plan to use pension funds for investment in agricultural land. The Taskforce is a team of Washington-based staff of national religious agencies who work together for a morally responsible US food policy. We speak for ourselves and not for the twenty-seven Protestant denominations and national Catholic, Jewish, and ecumenical agencies which support and cooperate in our work. However, our statements are consonant with the public policy recommendations of our sponsoring groups.

In our statement, we will examine two key assertions made by a spokesperson for the American Agricultural Investment Management Company in support of its proposed plan. The first is the positive assertion that the agricultural sector needs additional capital and that there is "no better way to support agriculture than with the retirement savings of Americans." The second is the negative assertion that, "It is a mistake to assume the owner-operator system of agriculture is beneficial to the nation."

More Capital?

We would challenge the assertion that the farm sector needs the type of additional capital represented by the pension fund scheme. There are, unarguably, specific, limited credit needs within agriculture. The plight of limited-resource and beginning farmers trying to purchase farms stand out in this regard. An undifferentiated injection of more capital into the land market, however, merely increases demand and pushes land prices upward. This is the case whether investors are individuals, pension funds or any

THE TASKFORCE IS A TEAM OF WASHINGTON-BASED STAFF OF NATIONAL RELIGIOUS AGENCIES. THESE BODIES OR THEIR PROGRAM BOARDS COOPERATE IN ITS WORK: AMERICAN BAPTIST CHURCHES, USA • AMERICAN JEWISH COMMITTEE • AMERICAN LUTHERAN CHURCH • BAPTIST JOINT COMMITTEE ON PUBLIC AFFAIRS • CHRISTIAN CHURCH (DISCIPLES OF CHRIST) • CHRISTIAN LIFE COMMISSION OF THE SOUTHERN BAPTIST CONVENTION • CHURCH OF THE BRETHREN • EPISCOPAL CHURCH • FRIENDS COMMITTEE ON NATIONAL LEGISLATION • JESUIT SOCIAL MINISTRIES • LUTHERAN CHURCH IN AMERICA • LUTHERAN CHURCH—MISSOURI SYNOD • MARYKNOLL FATHERS AND BROTHERS • MORAVIAN CHURCH IN AMERICA • NATIONAL COUNCIL OF CHURCHES AND CHURCH WORLD SERVICE • PRESBYTERIAN CHURCH IN THE US • REFORMED CHURCH IN AMERICA • UNION OF AMERICAN HEBREW CONGREGATIONS • UNITARIAN UNIVERSALIST ASSOCIATION • UNITARIAN UNIVERSALIST SERVICE COMMITTEE • UNITED CHURCH OF CHRIST • UNITED METHODIST CHURCH • UNITED PRESBYTERIAN CHURCH IN THE USA • BREAD FOR THE WORLD • CENTER OF CONCERN • NETWORK • WORLD HUNGER EDUCATION SERVICE. THE TASKFORCE, WHICH SPEAKS FOR ITSELF, PROVIDES INFORMATION AND RECOMMENDATIONS ON US FOOD POLICY TO ITS COOPERATING AGENCIES AND THE NATIONAL IMPACT NETWORK.

George A. Chauncey Presbyterian Church in the US Chair

FOR CURRENT INFORMATION CALL US TOLL-FREE AT 800/424-7292 (WASHINGTON RESIDENTS CALL 543-2800)

other source of capital. Such investment is inherently inflationary in a market in which prices have doubled, and in some areas tripled or quadrupled, in the last ten years.

Current land price trends threaten the financial stability of the agricultural economy. A strong inflationary psychology has been created, encouraged by federal tax policies, which makes land more valuable as a storehouse of value than as a provider of an annual income. This trend is dangerous. It places those who rely on farming for their livelihood at a disadvantage to several classes of investors and it leaves the land market extremely vulnerable to external shock. It could easily result in increased price volatility.

The land investments proposed by AAIM would result in no additional productivity and would therefore be of no benefit to society as a whole. In fact, they may well be to the long-term detriment of society if they in any way encourage a shift in farming away from efficiency and productivity criteria toward greater dependency on land value appreciation.

Within the farm sector, the higher land values caused by the increase in demand represented by the pension fund investments would result in additional carrying costs for all farmers now and in the future. Higher sale prices would also lead to higher land assessments and higher property taxes. The ability of farmers to earn a decent livelihood from the farming operation would thus be further diminished.

What Kind of Agriculture?

We would also challenge the assertion of the spokesperson for the AAIM that, "It is a mistake to assume the owner-operator system of agriculture is beneficial to the nation." There is widespread support within the religious community for preserving and strengthening a widely dispersed, owner-operated system of agriculture.

Last April, in conjunction with the Department of Agriculture's hearings on the "Structure of American Agriculture and Rural Communities," fifteen national religious leaders issued a statement declaring their support for public policy which would "actively encourage the preservation of an agriculture based primarily on small and moderate-sized family farms." The statement called for the elimination of federal policy incentives that favor large units, stimulate absentee ownership, or encourage corporate control of resources. A copy of this statement is attatched for the record.

Another example of this sentiment can be found in a pronouncement on Rural America: Life and Issues adopted by the 12th General Synod of the United Church of Christ in 1979: "The overriding argument of the family farm is political. The family farm represents a relatively broad dispersion of ownership, control and power in a society where concentration of economic power and control has already gone much too far."

Or again in a statement of the US Catholic Conference entitled The Family Farm: "The ideal family farmer is the resident owner-operator, the man (or woman) whose land is his home and livelihood. The land is a gift from God, and the farmer should pass it on unimpaired to the next generation. The renter may not hold his lease five years from now. No matter how conscientious he may be, he cannot be expected to have the same feel for his farm as the person who sees it as the link that binds his family together in space and through time. Stewardship of our most basic natural resource depends heavily on maintaining the farm as a stable homestead."

We feel that these assertions are based on more than sentiment. There is a good body of evidence to suggest that the widely dispersed, owner-operated system of agriculture has increased motivation and encouraged risk-taking, while minimizing the social costs of technological change and promoting the establishment and continued existence of strong rural communities. One need only to look at the exceptions to the predominant US agricultural experience to see the point: the plantation system of the Southeast and the hacienda system of the Southwest. The negative effects of these systems still linger in the form of wide socio-economic disparities within rural communities, inequitable access to productive resources and social services, lagging productivity, and urban migration and poverty. Any proposal to create a new class of sharecroppers, under whatever name it is given, must be viewed with alarm.

Perhaps less well researched, but no less real to members of the religious community, are the impacts of a primarily owner-operated system of agriculture on farm families and the communities of which they are a part. The opportunity for shared work experiences and shared decision-making about family livelihood almost certainly has a positive impact on maturing young persons. The opportunity is diminished under conditions of tenancy and is almost completely lost under sharecropping arrangements.

The quality of rural life is diminished if decisions regarding the use of a community's basic resources are made by persons who reside outside the community. Sociological research confirms our rather casual observations that communities controlled by absentee landlords are less viable, less richly endowed, than those in which the owners are resident: churches, schools, civic and business activities, community recreational programs, and community pride all fare less well in areas with large, absentee farms.

Consider these decisions regarding succession of farms and farmers:
I got my start in farming when an about-to-retire neighbor went with me to the widow from whom he rented. I have since purchased the farm from the heirs of the widow. The next expansion of my operation came when an about-to-retire couple came to me, offering to lease their farm on a concessional basis for the first couple of years. It is unlikely that either of these decisions would have taken place had these farms been in the hands of a pension fund with a professional management agent. A beginning farmer, with a thin line of credit and borrowed equipment, is not a good risk -- especially to the managers of a trust fund who have, of necessity, a different criteria of accountability.

I'd like to think that my community has been strengthened by expressions of confidence of this sort, and will exert great energy to preserve maximum opportunity for decisions which may express human concern.

Recommendations

We urge this Committee to recognize the proposed pension fund investment scheme, and the threat it poses to family farmers, rural communities, and the long-term productivity of US agriculture not as an isolated occurrence, but as part of the larger trends toward fewer, larger, more specialized farms and separation between risk, management, and labor. In order to prevent the further deterioration of the family farm system of agriculture, Congress should consider measures (a) to remove federal policy incentives currently in place which encourage growth in farm size and stimulate absentee investment, (b) to restrain non-farm involvement in farming, and (c) to enable small and moderate-sized owner-operated farms to remain economically viable.

Three specific measures deserve immediate attention:

1. Farm Tax Equity Act. The prospects of using the capital gains treatment accorded profits from the sale of farmland and of the tax rules which encourage "tax-loss" farming certainly attract non-farm investment into agriculture. Some of the most rewarding opportunities for tax avoidance are related to real estate. We support wholeheartedly the Farm Tax Equity Act, S 2871, which you introduced with Senators McGovern and Levin, as a beginning approach to this complex of tax rules.

2. Family Farm Antitrust Act. We would also favor a measure which would prohibit non-farm corporations having sizeable non-farm assets from investing in farmland. Such legislation should be more restrictive than, but along the same lines as, the Family Farm Antitrust Act, S 334, introduced by Senator Bayh.

3. Farm Entry Assistance Act. While we feel strongly that the proposed use of pension funds for investment in farmland is not a constructive means of making capital available to agriculture, we do recognize that individual farmers, especially families interested in entering farming, have large credit needs. If outside capital funds could be redirected to provide a source of credit for these would-be farmers, it would be a positive achievement. We are on record in strong support of Senator Nelson's Farm Entry Assistance Act which would offer federal loan guarantees to increase capital availability to beginning farmers, to be managed in conjunction with parallel programs on the state level.

Finally, we would suggest that the attention raised by this pension fund investment proposal ought not to be directed primarily toward the AAIM, but toward the public policy rules under which pension plan trusts are held and managed. So far as we are aware, there is nothing illegal about what is proposed, nor is any enabling legislation or administrative ruling required. Perhaps the wonder is that such a proposal did not appear sooner.

The phenomenon may be more in the nature of unintended consequences of rules established for unrelated reasons. We do not here either challenge or endorse the basic rule that income tax liability may be deferred for contributions to pension funds and income thereto, until the proceeds are distributed. Instead, we would suggest that the preferred tax treatment might well be accompanied by provisions requiring that the favored funds be invested under additional criteria of social productivity.

For example:

1. A sizeable block of funds might be reinvested in the industry from which they come -- in some way equivalent to retiring farmers who depend on the equity in their farms for retirement income. Certainly, some of this already occurs, but is it in such a way that current and former employees have a role in decision-making?

2. Some consideration needs to be given to national needs, probably defined through a system of shared national planning. Currently, for example, there seems to be a large measure of consensus about the need for additional employment, for additional housing, for "reindustrialization" leading to greater productivity, for solar energy development, for the revitalization of inner cities, and, we would pointedly add, a program for enabling younger farm families to become established owner-operators.

It is to such a discussion that the attention created by AAIM should be directed. Thank you for your consideration.

FOOD POLICY NOTES

INTERRELIGIOUS
TASKFORCE ON U.S. FOOD POLICY

GEORGE A. CHAUNCEY
PRESBYTERIAN CHURCH IN THE U.S.
CHAIRMAN

April 30, 1980 NOTE 80-17

LEADERS ISSUE AGRICULTURAL STATEMENT

WASHINGTON, DC, April 30, 1980--Fifteen US religious leaders issued a statement today supporting public policy that would actively encourage the preservation of an agriculture based primarily on small and moderate-sized family farms. The joint declaration was released during the USDA's final hearings on the "Structure of American Agriculture and Rural Communities."

The leaders noted that, "One of the most potent forces fueling the trend towards fewer and larger farms has been federal agricultural policy.

"As religious leaders, we view the deterioration of the family farm system with alarm and pain. It alienates ordinary people from the land, which is God's free gift to all. It saps the strength of rural communities. And it creates a situation where control of food production could be concentrated in the hands of a few. We cannot stand by and see this happen without protest."

The group, which included high-ranking officials of 13 faith groups, called for the elimination of federal policy incentives that favor large units, stimulate absentee ownership, or encourage corporate control of resources. Other recommendations dealt with equitable income to farm families, aid to new farmers acquiring land, minority farmers, cooperatives, and farmworkers.

The full statement is attached.

For further information call the Taskforce toll-free at 800/424-7292 (Washington, DC area residents please call 543-2800).

110 MARYLAND AVENUE, N.E., WASHINGTON, D.C. 20002 PHONE: 202/543-2800 800/424-7292

INTERFAITH STATEMENT ON PUBLIC POLICY AND THE STRUCTURE OF US AGRICULTURE

In the two centuries since its birth, America has drawn both physical and spiritual nourishment from an agriculture based on small and moderate-sized farms. The yield of these farms fed our people. Farmers worked to protect the vitality of our land in order to leave a sound inheritance to the next generation. Many of the small towns that helped shape the American character flourished as trading centers for farm people. Our food supply remains secure because productive land was not the private preserve of a rural gentry, but rather was distributed among millions of our fellow citizens. Finally, family farms of modest size offered a unique opportunity for a certain way of life, simple, self-reliant, close to nature and to God.

Today this source of national strength is at risk. Four million farms have vanished over the past half century, and America is still losing 30,000 a year. The loss of farmland by minority people has been especially severe.

Consolidation in the agricultural sector has many causes: the progressive industrialization of society, the substitution of machines for labor on the farm, the individual economic and social rewards of farm expansion, and so on. Some of this consolidation was probably inevitable and even now individual producers may feel great pressure to expand their farms. However, there is no significant overall economic benefit likely from further consolidation. Moreover, social and community costs of this trend have been and will continue to be high.

One of the most potent forces fueling the trend towards fewer and larger farms has been federal agricultural policy. Legislation has often had the effect of benefiting large farms at the expense of small ones, provided incentives for excessive expansion, and made it more difficult for young people to get a start in agriculture.

As religious leaders, we view the deterioration of the family farm system with alarm and pain. It alienates ordinary people from the land, which is God's free gift to all. It saps the strength of rural communities. And it creates a situation where control of food production could be concentrated in the hands of a few. We cannot stand by and see this happen without protest.

Many of the religious traditions we represent have taken public positions on the plight of the family farm. Drawing from the concern of our respective fellowships, we declare our support for public policy that would:

1. Actively encourage the preservation of an agriculture based primarily on small and moderate-sized family farms.

2. Strive to ensure that families that derive a substantial part of their livelihood from farming can earn an equitable return on labor and management. Commodity pricing policies should consider both justice to American farmers and possible disincentives to developing nation farmers from underpriced exports.

3. Restructure tax laws and target the payments from federal commodity programs so as to strengthen an agriculture based primarily on small and moderate-sized family farms. This involves eliminating incentives that favor large units, stimulate absentee ownership, or encourage corporate control of resources.

4. Promote the continued renewal of an agriculture based primarily on small and moderate-sized family farms by establishing programs to aid new farmers in acquiring land. Low-cost credit and loan guarantees should also be made availabl

to small and beginning farmers with limited resources.

5. Seek to stop the loss of land by minority farmers and establish progra to help reverse the trend.

6. Actively encourage cooperation rather than competition among farmers through such devices as community land trusts, collective bargaining, purchasing and marketing cooperatives, and equipment and labor-sharing arrangements.

7. Seek to provide farm workers the basic privileges and protections provided other American workers. Help qualified farmworkers to become farmers in their own right or train them for other dignified and substantial employment.

8. Create special extension, training, and cooperative programs to help small farmers, whom government aid often fails to reach.

9. Distribute access to public land and water rights so as to strengthen an agriculture based primarily on small and moderate-sized farms.

10. Target government-funded research and extension so as to strengthen an agriculture based primarily on small and moderate-sized family farms. Give special attention to developing technologies appropriate for use on small and moderate-sized farms.

We must never forget the words of the Psalmist, "The earth is the Lord's and the fullness thereof." Public policy that pursues these broad goals, in our time and place, will contribute to responsible stewardship of the precious earth and its bounty of food, and to justice for farmers.

The Rev. A. James Armstrong
Bishop of the Dakotas Area
United Methodist Church

The Rev. Shirley E. Greene
Executive Secretary
Wyoming Church Coalition

Sr. Dorothy Kinsella, O.S.F.
NETWORK

Paul Longacre
Hunger Concerns Secretary
Mennonite Central Committee

Most Rev. Lawrence J. McNamara
Bishop of Grand Island, Nebraska
President, National Catholic Rural Life Conference

The Rev. Joseph B. Muyskens
Secretary for Social Ministries
Reformed Church in America

The Rev. Robert W. Neff
General Secretary
Church of the Brethren

Mary Jane Patterson
Director, Washington Office
United Presbyterian Church, USA

The Rev. Avery Post
President, United Church of Christ

Dr. David W. Preus
President
The American Lutheran Church

Rabbi David Saperstein
Co-Director, Religious Action Center
Union of American Hebrew Congregations

Walter E. Schutt
Clerk
Friends United Meeting

Dr. Foy Valentine Executive Director The Christian Life Commission of the Southern Baptist Convention	Dr. Albert C. Winn Moderator of the General Assembly Presbyterian Church in the United States
The Rev. D. Frederick Wertz Bishop of the West Virginia Area United Methodist Church	

April 30, 1980

(organizations for identification purposes only)

Senator BAUCUS. The first question I would like to ask—and I am sorry that Mr. Stone is no longer here—regards the investment to date of pension funds in farmland. He mentioned Travellers Group or some subsidiary of Travellers that invested a total of $1 billion in real estate assets of various kinds—mortgages, farmland, et cetera.

My question really is this: Could you tell this committee the degree to which pension funds to date, according to your best information, have invested in farm real estate? Do any of you have that information? Do you have any idea at this point?

Mr. REEVES. No, we have not done careful enough research.

Senator BAUCUS. Therefore, you probably cannot answer the next question. To the degree that pension funds have not extensively invested in farmland, what are the reasons that they have not? The testimony is that 1.5 percent of the assets of pension funds could buy all American farmland. Pension fund assets are so large.

Why haven't more pension funds to date invested in more farmland, if you can answer that question?

Mr. REEVES. I will give you a partial answer. Mr. Stone referred to it.

One of the concerns of many pension funds is cash flow. Over the past number of years cash flow has been low, 3.5 or 4 percent of current value. Therefore, the payback time for investment in farmland is pretty long range. In some ways only a permanent pension fund could look at investment in farmland and realize the appreciation and over a period of time larger returns on the current investment.

The appreciation of farmland is a much larger factor in almost every recent year than current income. Pension plans that have cash flow problems simply could not look at farmland in any short-term frame of reference.

Senator BAUCUS. I suppose, too, to some degree it is the provisions in ERISA which under the prudent man rule might make it somewhat difficult for a pension fund to immediately invest in farmland.

A lot of it might be just tradition. Pension funds tend to be conservative. The fiduciary responsibilities that pension fund trustees have cause them to be conservative. Conservatism has something to do with tradition. Traditionally pension funds have not heavily invested in farmland. Maybe that is just a matter of lethargy and momentum that has prevented them thus far from going into that.

However, the opportunity today is certainly there. They very easily could move in that direction—I suppose depending in part upon what the congressional reaction is to the AAIM proposal. I would assume that many pension funds are waiting or holding back for maybe a month or two or a year to see what congressional reaction is to this kind of proposal. If Congress does not act, my guess is that the pension funds would more aggressively purchase farmland; whereas if the Congress does indicate that this is not good public policy, either through changes in the tax law or through other changes of the law, then pension funds and the AAIM's in the country would not go into farmland.

Is that a fair characterization of the problem as you see it or do you have anything to add to that?

Mr. **Krebs**. Mr. Cotter himself gave an interesting answer to your question in a speech that he gave up in Boston back in April to the Investment Technology Association. He said:

> Farm real estate has characteristics that make it unique. The supply is immutable. As the old saw goes, nobody is making any more. The supply is fixed while the demand is growing. People must eat. The supply of other forms of real estate is not fixed. From time to time in any area there are too many hotel rooms, apartments, offices, warehouses, industrial plants, or whatever for the demand. Buildings must deteriorate. Good farmland need not. Neighborhoods change as a Newark or Detroit and tremendous value is lost because the surroundings change. To the contrary, expanding urbanization or industrialization enhances farmland values as farms are converted to more intensive uses.

Not only is that a curious answer for the subject of these hearings, but I think it gives a unique view of Mr. Cotter's whole outlook related to the problems we have today.

Senator **Baucus**. You are speaking of Mr. Cotter?

Mr. **Krebs**. Mr. Cotter, yes.

Ms. **Lerza**. Mr. Chairman, another point is that the public outcry generated at the 1977 Ag-Land Fund I hearings was phenomenal. I think it did raise the specter that there would be further legislative action to restrict investment in agriculture. There was so much outcry from everyone from consumer groups to trade unions about what was going on that pension managers might have looked at other places to invest in the American economy which would not raise that kind of public ire.

Senator **Baucus**. I understand one of the arguments of the AAIM group is that it is difficult for younger people to get into farming these days. As several of you pointed out, as the present generation of family farmers begins to retire, it will be even more difficult for younger people to come into farming.

It is AAIM's contention that in this kind of arrangement a younger person by some sharing arrangement with AAIM and the pension fund will more easily be able to farm, albeit not as equity owner but certainly able to work the land.

What is your response to that argument?

Mr. **Reeves**. It seems to me if I had the responsibility as a farm manager and was accountable to the trust fund or to the investor to produce maximum income, I would be disinclined to take a chance on a beginner as opposed to an established operator.

That is the thing I pointed to in my own experience. My parents were not particularly aggressive farmers. They had no interest or desire in farming half the county. However, they were some of the best neighbors in the community. I reaped some of the benefit of that—that kind of human measure—to the point that neighbors and former neighbors were willing to take a chance on me because they knew who I was. There is not much room in professional farm management for that kind of taking chances on people.

Senator BAUCUS. Let me ask the question differently. How many younger people in your experience would want to go into this kind of an arrangement? It seems to me if a younger person wants to farm—and I know many in my home State of Montana who do—they are looking at various options. A lot of them want to farm, but if they absolutely cannot make a go of it they certainly are going to consider other options, too.

It seems that if one of the options is the arrangement proposed by AAIM, even though they can get on the land a lot of younger people might be disinclined to opt for that option because they are not the equity owners, because they won't own it, and because of the uncertainly—that is, the land might be sold to a developer for a shopping center a few years hence and so forth.

In your experience would a younger person want to go into this kind of arrangement where he is not the owner of the land? That is my question. To what degree would he not mind or not care? It is a tough question to answer, but I am just curious, based on your experience, how you would respond to that.

Mr. REEVES. It would seem to me the young fellow wanting to get started would probably rent land wherever it was available. He might prefer to rent from someone he knew, particularly if there were some minor kind of concession in the arrangement.

In my own case I started entirely on leased land. It was only after several years' operation that I was able to begin to buy the first tract of land.

I suspect the desire to farm would probably override that kind of look at who the owners were, even though there might be a strong preference on their part.

Ms. LERZA. I would like to make another point. There is a larger issue. It is somewhat of a "Catch 22." Because there are so many outside investors in farming who are bidding up the price of land because Federal policies and private sector policies have favored the expansion of farm size and because commodity prices have been low; and because cost of production, in part because of inflation and rising energy costs, have been so high, the situation that Don Reeves talked about is created. It becomes so risky, if not impossible, to actually buy a farm; if you are a young farmer; that it becomes more attractive to rent.

However, given another set of circumstances, most any farmer I have ever talked to would prefer to own his or her own land not just because of the equity value, but because of some of the other, intangible things Don Reeves talked about in his testimony. Farms do tie families together through time and in space.

When you lose that possibility of ownership, if you still want to farm, then you take any option given you, which is what AAIM is giving people. However, I do not think that renting or share cropping is what farmers want, certainly not any formers to whom I have ever talked.

Senator BAUCUS. Do you think it would be too much infringement on State legislatures and States for the Congress to enact

pages tightly bound

measures which, if they do not prohibit, significantly restrict these kinds of measures? Should we leave it to the States as Oklahoma apparently has? Apparently other States, too, have restrictions.

Mr. Krebs, I believe you mentioned something about that.

Mr. **Krebs**. I believe Don Reeves touched upon this, too, or maybe it was Mr. Stone.

The problem is that there are some States where you find this type of thing. For example, I come from California. We know for a fact it would be almost a near impossibility to get some kind of a State family farm act enacted in California. The powers that be would just be insurmountable. Not only is tax loss farming a big thing already in the State, but of course corporations totally dominate the State's agriculture. Therefore, it has to be done on a Federal level.

While it is advantageous to a number of the States in the Midwest to do this because the large corporations have not made as many in-roads into their States, as the 17 Western States, I think you would find it would be, nay, impossible to get that.

It is significant, going back a moment to your previous question that there is a major private university on the west coast, the University of Santa Clara, that now has an institute in agribusiness. They are taking science majors and giving them two years of post-graduate work in business administration and then calling them farmers and sending them out to try to buy agricultural land. The Bank of America is more or less subsidizing this post-graduate program.

All we have to do is look at AAIM's so-called farm managers. Who are they? They are former bank vice presidents and so forth. They certainly are not farmers.

Senator **Baucus**. There is a related problem here. It is only tangentially related. It is the basic problem of absentee ownership.

The Anaconda Co., a big copper-producing company, several years ago was purchased by Arco, a major oil company. Anaconda has had extensive mine operations in Montana as well as smelters in Montana. It is one of the largest employers in the State.

Last week Arco announced that it was withdrawing all its smelting and refining operations from the State. They just closed down. That put about 1,500 people completely out of work.

In large part I believe that is because of absentee ownership—that is, Arco is such a large corporation and Montana is a very, very small fly in the ointment for them. If Anaconda had not been purchased by Arco, I am not saying we would not have the same result but at least there is a greater probability that Anaconda, because it is a little closer to the State, less remote and less removed than Arco, could have held on to the smelter operations and found a way to rebuild the smelter to meet Clean Air Act standards and upgrade and meet the environmental standards that have to be met.

Mr. **Krebs**. The railroads are also large farmland owners in the Western United States.

Senator **Baucus**. The railroads are a good example.

The greater the absentee ownership, the greater the problems that beset us and the more quickly the social fabric of communities falls apart.

Frankly, I think that one of the reasons why they are projecting low voter turnouts for the upcoming presidential election is because people feel they do not have any control over their lives any more. Their sense of identity is in question.

Certainly the proposal that AAIM has here will lead to and exacerbate those kinds of problems, in addition to the agricultural production and all the other points that you and other witnesses have made.

Ms. **Lerza**. I was pleased to hear Susan Sechler of the Department of Agriculture make her personal statement about the possible relationship of inflation toward where capital is invested in our economy. Perhaps outside investment in agriculture, as well as the fact the big corporations simply pulling out of communities and destroying them, are a cause of increasing inflation.

It is probably more important to look at those things than at the Federal budget process and balanced budgets. A look at where capital is going in this country—and out of this country, which might be even more important—would tell us more about where the problem really lies than looking at the Federal budget.

Mr. **Krebs**. There is also the question of so many of these large corporations with their pension funds being so diversified, as I suggested in my testimony. Where does the conflict of interest come in? If they have some money in one farming venture and they also have an interest in another venture somewhere in the food chain, either through vertical integration or through outright ownership, how is that resolved and who is it resolved in favor of? I think we can pretty well guess that it is going to be resolved in terms of which is going to bring back more profit. It is not going to be resolved in terms of what might be better for that particular agricultural community.

Senator **Baucus**. That is right. I do not think the answers to these questions are automatic. Times do change. Technology does advance. We cannot automatically turn the clock back to a period in American history 100 years ago or 50 years ago. There has to be an accommodation, but still there are basic principles and basic values that have to be preserved.

In my judgment based on what I know of the proposal to date, I think the AAIM proposal and proposals like it, despite some alleged advantages, would be detrimental not only to farming but to the country generally. It is for that reason I intend to follow this very closely. I will in legislation encourage the IRS and other agencies and the States to take appropriate action to prevent the kinds of problems that would occur if the AAIM groups were able to proceed.

Thank you all very much for coming. You have been very helpful. You gave very good statements. Thank you very much.

[Whereupon, at 12:05 p.m., the hearing recessed, to reconvene at the call of the Chair.]

APPENDIX

STATEMENT BY
CONGRESSMAN ROBERT W. KASTENMEIER
BEFORE THE SENATE SMALL BUSINESS COMMITTEE
OCTOBER 8, 1980

Mr. Chairman, I commend the Small Business Committee for holding these hearings to gather information on the American Agricultural Investment Management Company (AAIM).

The primary role of the AAIM will be to act as the investment manager for pension funds and individuals who wish to purchase farmland as part of their investment portfolios. This is an ominous development for American agriculture, and we can foresee the results. Heavy investment in farmland will drive up land values, making it even more difficult for small farmers to expand their holdings or get into farming in the first place. Soil and water conservation will deteriorate as corporate farm managers seek to maximize short term profits by cutting corners on conservation practices. Agricultural markets will be dominated by large, nonfarm corporations, and the family farmer will lose his place in American farming.

I will not attempt to provide the Committee with detailed information on the activities of the AAIM. There are others appearing before the Committee and submitting testimony who will supply these facts, and the General Accounting Office is currently conducting a study on this matter.

I wish to focus on one point. As far as I can determine, the activities which the AAIM proposes to undertake are legal. Like the Agland Investment scheme attempted by Merrill-Lynch and the Continental Bank and Trust Company in 1976, we may be able to stop such farmland purchases through the force of public opinion. But from my knowledge of the law in this area and my discussions with various parties in and out of government, there appear to be no legal remedies. Even though some states have laws to discourage corporate takeovers of farmland, many others do not and some of the laws which do exist are not adequate to stop the AAIM.

For these reasons, I would like to bring to the Committee's attention a bill I have introduced which would clearly prohibit companies such as AAIM from using productive farmland for investment purposes. My bill, the Family Farm Antitrust Act (H.R. 7822), would prohibit any person or corporation with nonfarming business assets in excess of $5 million from engaging in farm production. Outside investors would not only be stopped from buying productive farmland, but they would also be prevented from controlling agricultural production through the leasing of farmland and through contracts which give the investor control over the actual operation of farms.

H.R. 7822 gives companies and individuals who are in violation five years to divest their holdings. The Farmers Home Administration would be authorized to acquire those holdings at fair market values if no other buyers could be found. A civil penalty would be applied to those who do not divest within the five-year period and those who come into violation of the bill after its passage. The penalty would equal twice the amount of income received by the violator from the illegal production, or $2,000 per acre per year of land owned or controlled in violation of the Family Farm Antitrust Act, whichever is greater.

The Secretary of Agriculture would be required to advise the Congress periodically on the need to raise the nonfarm business asset ceiling, and the bill exempts agricultural cooperatives and charitable, research and educational institutions.

This legislation is a new approach to antitrust law, and I do not claim that, as currently written, it is necessarily the only or even the best way to protect family farmers from the overwhelming economic power which can be exerted by the nation's pension funds and corporations. However, I do hope your Committee, in conjunction with other committees of the Congress, will explore strong legislative remedies.

For years we have been told by the Departments of Agriculture and Justice that corporate involvement in farming is not a significant problem. However, the formation of the AAIM clearly shows that this is not the case, and I appreciate this Committee's efforts to generate greater public attention to this important development.

STATEMENT OF COMMUNICATING FOR AGRICULTURE, INC., FERGUS FALLS, MINN.

COMMUNICATING FOR AGRICULTURE (CA) WISHES TO EXPRESS ITS APPRECIATION FOR THE OPPORTUNITY TO DISCUSS THE SERIOUS PROBLEM OF NON-AGRICULTURAL CORPORATE ACQUISITION OF AGRICULTURAL LAND IN THE UNITED STATES.

CA IS A NON-PARTISAN, NON-PROFIT RURAL ADVOCACY ORGANIZATION WITH MEMBERSHIP IN 43 STATES AND NATIONAL HEADQUARTERS IN FERGUS FALLS, MINNESOTA.

THE GOALS OF THE ORGANIZATION INCLUDE THE PRESERVATION AND PROMOTION OF THE RURAL AMERICAN WAY OF LIFE. WE BELIEVE THAT THE HEART OF RURAL AMERICA IS THE FAMILY FARM.

WE AT CA FEEL THAT NON-AGRICULTURAL CORPORATE ACQUISITION OF FARMLAND IS A THREAT TO THE FAMILY FARM SYSTEM.

FAMILY FARMERS ARE EFFICIENT ECONOMIC UNITS IN THE FOOD PRODUCTION SYSTEM, AND THEY ARE ALSO VERY GOOD FOR RURAL COMMUNITIES. AN UNFORTUNATE CONSEQUENCE OF THE LOSS OF FARMERS FROM THE LAND IS THE DISAPPEARANCE OF SMALL BUSINESSES FROM OUR COMMUNITIES. ESTIMATES VARY, BUT THE LATEST IS THAT A SMALL TOWN BUSINESSMAN IS LOST FOR EVERY FIVE FARMERS WHO LEAVE THE COUNTRYSIDE. MANY INDEPENDENT BUSINESSMEN IN SMALLER TOWNS ARE BECOMING

HIRED HANDS OF CHAIN STORES.

ORGANIZATIONS SUCH AS AMERICAN AGRICULTURAL INVESTMENT MANAGEMENT COMPANY (OTHERWISE KNOWN AS AAIM), FROM THE CHICAGO AREA, WILL MAKE HIRED HANDS OUT OF OUR FAMILY FARMERS IF WE DO NOT PUT A STOP TO CORPORATE ATTEMPTS TO GOBBLE UP FAMILY FARMS.

CA'S ACTION IN ALERTING CONGRESS TO THE ACTIVITIES OF AAIM BEGAN SHORTLY AFTER LEARNING OF ITS FORMATION IN THE APRIL ISSUE OF PENSION AND INVESTMENTS. IT WAS APPARENT FROM THE OUTSET THAT AAIM IS ANOTHER ORGANIZATION WITH THE OBJECTIVE OF PURCHASING FARMLAND FOR NONFARM OPERATORS AND USING THE EXPERTISE OF AMERICAN FARMERS TO OPERATE THE FARMS, BUT WITH THE FARMERS THEMSELVES BEING ONLY TENANTS OR HIRED HANDS.

IS THIS THE KIND OF STRUCTURE WE WANT IN RURAL AMERICA? CERTAINLY NOT!

WHAT CA FEELS THAT NEEDS TO BE BROUGHT OUT AND UNDERSTOOD IS WHY AND HOW AN ORGANIZATION LIKE AAIM WOULD OPERATE.

FIRST, AAIM CLAIMS THAT IT WILL NOT OWN THE FARMLAND, BUT MERELY SERVE AS INVESTMENT MANAGER FOR INDIVIDUAL INVESTORS, PENSION FUNDS AND OTHERS INTERESTED IN PURCHASING FARMLAND. THEY WILL LOCATE FARMS TO BE PURCHASED AND NEGOTIATE WITH EXISTING FARM MANAGEMENT FIRMS FOR ITS INVESTORS.

ACCORDING TO PENSIONS AND INVESTMENTS, THE FARMS WILL BE PURCHASED IN FIVE REGIONS: THE DELTA; THE SOUTHWEST; TEXAS, COLORADO AND CALIFORNIA; THE NORTHWEST; AND THE MIDWEST.

EACH INDIVIDUAL INVESTOR OR PENSION FUND WILL INVEST A MINIMUM OF $5 TO $10 MILLION, TO DIRECTLY PURCHASE 5 TO 7 FARMS. FARM MANAGEMENT FIRMS WILL HAVE HIRED HANDS TO OPERATE THE FARMS OR RENT THEM OUT. IF A FARMER RENTS, HE WILL PROVIDE HIS OWN EQUIPMENT AND LABOR AND WILL PAY A RENT OF ONE HALF OF HIS OUTPUT. IN OTHER WORDS, IF YOU DO A GOOD JOB OF FARMING, YOU PAY MORE RENT, AND IF YOU DO A POOR JOB YOU PAY LESS RENT.

CA HAS NOT SEEN A SCHEDULE OF FEES FOR AAIM, BUT NORTHERN TRUST COMPANY OF CHICAGO, ONE OF THE LARGEST TRUST DEPARTMENTS IN THE COUNTRY, HAS THE FOLLOWING FEE SCHEDULE FOR THEIR TRUST DEPARTMENT CUSTOMERS:

SCHEDULE OF FEES **ACQUISITION OF LAND**

FOR SPECIAL CONSULTATION SERVICES AND LAND ACQUISITION A FEE RANGING FROM 5% TO 2% OF THE ACQUISITION PRICE WILL BE ASSESSED DEPENDING UPON THE SIZE OF THE ACQUISITION.

FARM MANAGEMENT FEES FOR TENANT OPERATED FARMS

GRAIN FARMS	8% OF OWNER'S SHARE OF GROSS INCOME
LIVESTOCK & DAIRY	10% OF OWNER'S SHARE OF ADJUSTED

GROSS INCOME

FEES FOR DIRECT MANAGED FARMS

8% OF ADJUSTED GROSS INCOME

LET'S LOOK AT THE NUMBERS FOR A HYPOTHETICAL 240-ACRE FARM SELLING FOR $2,500 AN ACRE IN IOWA:

ACQUISITION COSTS: $600,000 X 5% = $30,000.

FARM MANAGEMENT: LET'S ASSUME IT IS ALL IN CORN WITH A YIELD OF 150 BUSHELS AN ACRE - 240 X 150 = 36,000 BUSHELS OF CORN AT $2.75 A BUSHEL = $99,000.

THE FARM MANAGER TAKES 8 PERCENT OF $99,000, OR $7,920, PLUS COST OF FUEL, SEED FERTILIZER, CHEMICALS, EQUIPMENT AND LABOR, TAXES (NO HOMESTEAD). THIS ALL MUST COME OUT OF THE BALANCE OF $91,000.

WE WHO KNOW FARMING KNOW THAT THERE ISN'T A BIG ENOUGH MARGIN TO PAY SOMEONE 8 PERCENT OFF THE TOP AND STILL BREAK EVEN. WHY DOES AAIM WANT TO PROMOTE THIS PLAN, AND HOW DOES IT ATTRACT INVESTORS INTO AN INDUSTRY THAT HAS A HISTORY OF LOW EARNINGS.

THE ANSWER TO THE FIRST QUESTION IS OBVIOUS: AAIM WILL MAKE BIG MONEY OFF BOTH THE INVESTORS AND FARM MANAGERS. BUT HOW DO THEY ENTICE THE

INVESTORS?

INVESTMENT FIRMS OF THIS TYPE WILL PROVIDE OBVIOUS ADVANTAGES TO THE INDIVIDUALS WHO CONTRIBUTE TO PARTICIPATING PENSION FUNDS. THE PURCHASE OF FARMLAND OFFERS THE PENSION FUNDS AN OPPORTUNITY TO BROADEN THEIR PORTFOLIOS AND REDUCE RISK, AND IT OFFERS INDIVIDUALS THE OPPORTUNITY TO INVEST IN AN ASSET WHOSE REAL VALUE (AFTER ADJUSTING FOR INFLATION) HAS INCREASED AT AN AVERAGE ANNUAL RATE OF 5.5 PERCENT OVER THE LAST 10 YEARS.

INCOME TAXES ON BOTH THE CONTRIBUTIONS INTO PENSION FUNDS AND THE RETURNS THAT THEY EARN ARE POSTPONED UNTIL DISBURSEMENT OF THE FUNDS. THESE TAX ADVANTAGES WILL PROVIDE THOSE PARTICIPATING IN THE PENSION FUND WITH AN ADVANTAGE OVER FAMILY FARMERS WHO DO NOT RECEIVE SIMILAR TAX BREAKS WHEN THEY INVEST IN FARMLAND TO ENLARGE THEIR FARMS.

AAIM KNOWS THAT THE PROFIT ON FARMLAND IS NOT IN FARMING THE LAND, BUT RATHER IT IS IN SELLING THE LAND. AT THE END OF 1979, THERE WAS IN EXCESS OF $370 BILLION IN PENSION FUNDS. WITH TAX ADVANTAGES AS THEY ARE, THE PENSION FUNDS COULD PAY OFF THE DEBT OF AMERICAN AGRICULTURE, WHICH NOW IS $82 BILLION, AND STILL HAVE MORE THAN 75 PERCENT OF THESE FUNDS LEFT.

SOMETHING HAS TO BE DONE NOW.

CA FEELS THAT FEDERAL LEGISLATION MUST BE ENACTED TO DISCOURAGE NON-AGRICULTURE CORPORATIONS, PENSION FUNDS AND FARMLAND SPECULATION. THE FAMILY FARM ANTITRUST ACT NEEDS TO BE PURSUED IN EARNEST IF THE RURAL AMERICAN FUTURE IS TO CONTINUE TO BE A FAMILY SITUATION AS IT HAS BEEN SINCE OUR FOREFATHERS BEGAN THIS NATION.

THANK YOU

RURAL COALITION

October 17, 1980

Members of Congress:

THE RURAL COALITION, comprised of 52 national and regional public interest groups, is concerned with the rights of low-income, minority and rural Americans. We are submitting this statement to express our opposition to the American Agricultural Investment Management Company, Inc. and their use of pension funds for investment in agricultural land.

AAIM's purpose is to act as the investment manager for pension funds and individuals who wish to purchase farmland as a part of their portfolios. AAIM intends to work as the pension fund's purchasing agent and manage farms in return for a percentage of the land's value. The corporation (AAIM) will hire regional managers, who, in turn, look for prime farmland, negotiate the purchase of the land with the pension funds and select a local "operator" to farm it. Labor, equipment and related costs are to be split evenly between AAIM and the operator, as would the value of the crops raised on the land.

This corporation poses an enormous threat to small, family farmers throughout America. Aside from the fact that this concept proposes the revival of a new type of sharecropping, the most obvious problem is that the small farmer cannot compete with the large corporation for land ownership. Purchasing farmland with pension funds will drive up the cost of the farmland to such an extent that individual farmers will not have financial strength to own their land. AAIM creates an insidious and inefficient separation between "owners" and "operators". The "beginning" farmer will find it increasingly difficult to even bid for land. Additionally, the thorough screening techniques to be used by AAIM for selecting "operators" will favor the well-equipped, more established farmer instead of a beginning or small, family farmer. This situation can only speed up the extinction of the family farmer from the agricultural economy, which we believe would have devastating results for rural America as well as for all American consumers.

We stress the importance of denouncing the issue because it affects virtually all Americans, and we urge that Congress oppose not only the establishment of AAIM, but also focus on the more important issue of halting non-farm corporate ownership of agricultural land.

Sincerely,

Barbara E. Rose
Executive Director

BER:aw

1035-30TH STREET, N.W., WASHINGTON, D.C. 20007 / (202) 338-7200

RURAL COALITION

Listed below are names of organizations that have joined the Rural Coalition and subscribed to its Statement of Principles. All are located in Washington, D.C. unless otherwise noted.

American Rural Health Association, Birmingham, AL
Association of Community Organizations for Reform Now (ACORN), New Orleans, LA
Center for Community Change
Center for Community Economic Development
Children's Foundation
Clearinghouse for Community Based Free Standing Educational Institutions
Conference on Alternative State and Local Public Policies
Delta Foundation, Greenville, MS
Emergency Land Fund, Atlanta, GA
Federation of Southern Cooperatives, Epes, AL
Housing Assistance Council, Inc.
Human/Economic Appalachian Development, Berea, KY
Institute for Local Self Reliance
Institute for Rural Sanitation Services
Institute on Man and Science, Rensselaerville, NY
Kentucky Rivers Coalition, Lexington, KY
League of Women Voters Education Fund
Mountain Association for Community Economic Development, Berea, KY
National Association of Farmworker Organizations
National Association of Neighborhoods
National Association of Social Workers
National Catholic Rural Life Conference, Des Moines, IA
National Community Action Agency Executive Directors Association
National Congress for Community Economic Development
National Congress of American Indians
National Council on Agricultural Life and Labor, Dover, DE
National Council of La Raza
National Council of Negro Women, Inc.
National Demonstration Water Project
National Family Farm Coalition
National Organization for Migrant Children, Inc., New York, NY
National Rural Center
National Rural Development and Finance Corporation
National Rural Fellows, New York, NY
National Rural Housing Coalition
National Urban Fellows, New York, NY
NETWORK
Ozark Institute, Eureka Springs, AK
Rural Advancement Fund of the National Sharecroppers Fund, Inc., Charlotte, NC
Rural America, Inc.
Rural American Women, Inc.
Rural Community Assistance Corporation, Sacramento, CA
Rural Development Enterprises, Toppenish, WA
Rural Housing Improvement, Inc., Winchendon, MA
Southern Appalachian Leadership Training Program (SALT), Sevierville, TN
Southern Regional Council, Atlanta, GA
Southern Rural Policy Congress, Montgomery, AL
United Auto Workers
United Indian Planners Association
United States Catholic Conference
The Youth Project

Illinois Farm Bureau

ILLINOIS AGRICULTURAL ASSOCIATION 1701 TOWANDA AVE P.O. BOX 2901 BLOOMINGTON ILLINOIS 61701 PH 309 557 2111

October 27, 1980

Senator Max Baucus
Dirksen Office Building
Box 5327
Washington, D.C. 20510

Dear Senator Baucus:

It is our understanding the Senate Small Business Committee held hearings on October 8, 1980 concerning pension fund investment in U.S. farmland. Farm Bureau in Illinois would appreciate having the following statement included as part of the hearing record:

The Illinois Farm Bureau is a voluntary membership organization representing approximately three-fourths of the farmers in Illinois. We are a member state Farm Bureau of the American Farm Bureau Federation. We have reviewed the statement of the American Farm Bureau Federation presented to your committee on October 8 concerning pension fund investments in U.S. farmland. We share the belief of the AFBF that inflation and the prospect of continued inflation is the central economic problem in agriculture and in the overall economy. Such inflation is a primary stimulus for investors, including pension fund managers, to seek long-term protection of their investment from the erosion of inflation. Thus a first step toward a long-term solution to the problem of pension fund investment in agriculture is to bring inflation under control.

In addition, we believe the statement which I presented on behalf of the AFBF on February 24, 1977 regarding the Ag-Land Fund advanced by Continental Illinois National Bank & Trust Company and Merrill Lynch Hubbard, Inc. accurately described the tax advantages of such a fund and the need for corrective action to remove such advantages. We believe that similar principles apply to the current proposal of the American Agricultural Investment Management Company, Inc. to facilitate the investment of pension funds in agriculture and the AAIM will derive a similar inequitable tax advantage over farmers in competing for land. We oppose the use of agricultural land as a long-term tax sheltered investment by pension and profit-sharing funds and would urge the Committee to develop legislation to remove such tax advantages.

Thank you for the opportunity to have our concerns a part of the record on this important subject.

Sincerely,

ILLINOIS AGRICULTURAL ASSOCIATION

Harold B. Steele

Harold B. Steele, President